APPROPRIATION FOR FEDERAL CONTROL OF TRANS-PORTATION SYSTEMS

HEARING

BEFORE

SUBCOMMITTEE OF HOUSE COMMITTEE ON APPROPRIATIONS

CONSISTING OF

MESSRS. SWAGAR SHERLEY (CHAIRMAN), JOHN J. EAGAN, THOMAS UPTON SISSON, JOSEPH G. CANNON, AND WILLIAM S. VARE

IN CHARGE OF

DEFICIENCY APPROPRIATIONS FOR THE FISCAL YEAR 1919 AND PRIOR FISCAL YEARS

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APPROPRIATION FOR FEDERAL CONTROL OF TRANSPORTATION SYSTEMS.

HEARINGS CONDUCTED BY THE SUBCOMMITTEE, MESSRS. SWAGAR SHERLEY (CHAIRMAN), JOHN J. EAGAN, THOMAS U. SISSON, JOSEPH G. CANNON, AND WILLIAM S. VARE, OF THE COMMITTEE ON APPROPRIATIONS, HOUSE OF REPRESENTATIVES, IN CHARGE OF DEFICIENCIES FOR THE FISCAL YEAR 1919, AND FOR PRIOR YEARS.

WEDNESDAY, FEBRUARY 5, 1919.

RAILROAD ADMINISTRATION.

STATEMENT OF MR. WALKER D. HINES, DIRECTOR GENERAL, UNITED STATES RAILROAD ADMINISTRATION.

GENERAL STATEMENT.

The CHAIRMAN. Mr. Hines, there has been submitted in House Document No. 1722, this session, an estimate on behalf of the Director General of Railroads for $750,000,000 as an addition to the $500,000,000 heretofore appropriated as a revolving fund in connection with the administration by the Government of the railroads of the country and which is as follows:

[House Document No. 1722, Sixty-fifth Congress, third session.]

DIRECTOR GENERAL OF RAILROADS,
INTERSTATE COMMERCE BUILDING,
Washington, D. C., January 24, 1919.

MY DEAR MR. SECRETARY: I have the honor to submit herewith a supplementary estimate in the sum of $750,000,000, to be immediately available and to remain available until expended, and to be added to and considered a part of the "revolving fund" provided for in section 6 of the act approved March 21, 1918, entitled "An act to provide for the operation of transportation systems while under Federal control, for the just compensation of their owners, and for other purposes."

This additional sum would be expended in the same manner and for the same purpose and under the same conditions as the amount appropriated in the above-mentioned section.

The necessity for this appropriation grows out of the following facts:

When the Railroad Administration shall have settled its accounts for the year 1918, the result will be substantially as follows:

1. The Railroad Administration had cash on hand at the end of the calendar year 1918 .... $247,100,000

   This represents approximately the working cash capital partly in the central treasury at Washington, but principally in the hands of the Federal treasurers of the Railroad Administration throughout the country. This represents much less than one month's op rating expenses and approximately this amount is necessary to enable the Railroad Administration and the various railroads under its control to meet without delay their pay rolls, vouchers, and other cash requirements.

2. The Railroad Administration had on hand as of Dec. 31, 1918, approximately the following additional current assets:		
Agents' and conductors' balances	$154,000,000	
Advances temporarily made to railroad corporations on open account for which in effect materials and supplies are held collateral	100,000,000	
Total	254,000,000	
Less outstanding current liabilities	162,047,865	
		$91,952,135
This net balance of these current assets will become again available in cash at the end of Federal control, but pending Federal control is inevitably tied up as a part of the working cash capital of the Railroad Administration.		
3. Loaned New York, New Haven & Hartford Railroad Co		51,475,000
This amount will be eventually paid with interest, but the greater part of it, and perhaps all of it will not be paid until after the end of the calendar year 1919.		
4. Invested in necessary additions and betterments actually made during the year 1918 over and above the amount which the companies can immediately repay out of their rental and out of the balances due them on open account for the calendar year 1918		290,918,283
This amount will eventually be paid with interest to the Railroad Administration. The rapidity with which it can be paid is dependent upon financial conditions and the ability of the railroad corporations to borrow this money in the open market without undue disturbance of financial conditions and without undue interference with the financing of the Government.		
Total		681,445,418
It will be observed that while all this amount of cash is temporarily tied up in the Government's conduct of the railroad business, it is expected that the entire amount will be eventually repaid, but temporarily it can not be repaid as above indicated, and therefore provision has to be made for carrying it.		
5. In addition, the Railroad Administration will have paid the operating loss for 1919, i. e., the difference between the standard return due the railroads and the net operating income derived by the Government from railroad operations, this difference amounting to		196,000,000
This loss was due largely to the fact that increased rates were effective for only 6 months, approximately, while increased expenses were effective to a very large extent for the entire 12 months, due partly to the unprecedented weather last winter (the railroads having shown an operating loss of over $100,000,000 for the first four months of 1918 as compared with 1917, although no increased wages were included in those months, and while the corporations themselves were still operating the railroads as agents of the Director General), and partly to conducting business at whatever cost was necessary to meet the needs of war. This represents the only item in the entire expenditure for the calendar year 1918 (except a portion of the next succeeding item), which is a loss to the Government, and ought frankly to be charged as part of the cost of the war and should be regarded as an exceedingly low cost for the result accomplished.		
6. In addition, the Railroad Administration has expended during the year 1918 in connection with inland waterways		4,361,486
Of this amount, $500,000 represents operating deficit during the year 1918. It must be remembered that this operating deficit was incurred in the early and formative stages of governmental operation upon the inland waterways and can not be regarded as indicating in any way that similar losses are to be expected when the operation shall be fully developed. The balance, or $3,861,486, represents boats and other property acquired by the Government for operation of inland waterways, and, of course, can and will continue to be so employed.		
Grand total		881,806,904
Amount of revolving fund		500,000,000
Amount to be provided to settle all accounts for 1918		381,806,904

In order, therefore, to settle in full the accounts of the Railroad Administration for the calendar year 1918, it will be necessary to provide the additional sum of $381,806,904, which, together with the revolving fund of $500,000,000 appropriated in the act of March 21, 1918, will meet the transactions of the Railroad Administration for the year 1918, all of which have been outlined above. It must, of course, be understood that the figures used are necessarily only approximate at this time, because the accounts for the year 1918 have not been completely stated and can not be prior to March 1 at the earliest.

For the calendar year 1919, financial provision must be made for the following:

1. To finance expenditures contemplated on inland waterways	$12,840,000
2. To financing Boston & Maine reorganization	20,000,000
3. To financing equipment ordered in 1918 and to be delivered in 1919	286,000,000
4. To financing other necessary capital expenditures for additions and betterments, including equipment	491,000,000
Total	809,840,000
Less portion of companies' rental which can be devoted to capital expenditures	150,000,000
Balance to be provided	659,840,000

The last item above mentioned of $491,000,000 represents a forecast of capital expenditures which will need to be made during the calendar year 1919, including these which were authorized and not entered upon or not completed during the calendar year 1918. Under existing conditions it is the purpose, generally speaking, to avoid the making of new capital expenditures without the assent of the corporations, but with such a vast transportation system it is believed that the expenditure of $491,000,000 will be required during the year and will be substantially assented to by the corporations themselves.

A very large part of these expenditures must be provided for in the first few months of 1919, and we are compelled to allow for the situation that during the period prior to the next liberty loan campaign and during that campaign it would not be desirable or practicable for railroad corporations to do a large part of their own financing.

Under these circumstances I am of opinion that $750,000,000 is the minimum appropriation which will enable the Railroad Administration to carry, as above explained, the money that is necessarily tied up in the Government's conduct of the railroad business and to provide for financing by the Railroad Administration of the portions of the necessary capital expenditures which it must be assumed it will be necessary for the Government to carry temporarily for the protection of the general financial situation as well as for the protection of its own financing. Such appropriation will meet the requirement of $381,806,904 to settle the accounts for 1918, and in addition will provide $368,193,096 toward meeting the above-mentioned capital expenditures for 1919.

This matter has been very carefully considered with my associates in the Railroad Administration, and we are satisfied that at least this much provision ought to be made for temporary assistance for these important purposes. It must be emphasized again that the money so provided will eventually be returned to the Government with interest.

It is highly important that adequate funds for these purposes should be provided so as to give the Railroad Administration reasonable margin for encouraging the making of such railroad improvements as may seem justifiable from the railroad standpoint, especially since such improvements will aid in stabilizing the general industrial situation.

Whether Government control shall continue until the end of the 21 months' period or shall be terminated in the next few months, it is equally necessary that the appropriation above recommended be made. If the control continued for the 21 months' period, it is my belief and the belief of my associates in the Railroad Administration that we can not count upon the railroad companies financing during the calendar year 1919 any greater portion of their capital expenditures than it is above assumed they will finance. On the other hand, if control should be terminated in the next few months, it will still be true that a very large part of the capital expenditures for 1919 will have been made, and besides, the possession of an adequate fund to facilitate the transfer back to private control and to give temporary aid in financing will be highly desirable. Of course, I must deal with the matter exclusively upon the basis of the law as it now stands and without reference to conditions which might be brought about in the event of a further extension of Federal control.

The reason for the submission of the supplementary estimate at this time is that the accounts of the Railroad Administration are kept upon the basis of the calendar

year, and therefore it was not practicable to make any reasonable estimate until after the end of the calendar year.

Cordially, yours,

WALKER D. HINES.

Hon. CARTER GLASS,
Secretary of the Treasury, Washington, D. C.

Before we go into a detailed examination of the financial situation confronting you as Director General of the Railroads, suppose you make such general and preliminary statement as you may wish.

Mr. HINES. Mr. Chairman, I will say that I will try in 15 or 20 minutes to put before you gentlemen what I have in mind as the leading features of this problem, and I think you will find that in that time I probably will answer, at least in a broad way, some of the important questions you have in your minds; but, of course, you will bring out a great many other matters upon which I or my assistants will be able to enlighten you further.

The proposition is that we ask Congress for $750,000,000. Congress has already appropriated in the original Federal control act of last March $500,000,000, so the effect of it is that the Congress is confronted with a request for an appropriation which, if allowed, will make the aggregate appropriated for by the Railroad Administration $1,250,000,000, and of course it is a very pertinent question as to why that is needed.

In the first place, about $200,000,000 of that $1,250,000,000, in round numbers, is needed to make up what might be called a deficit in operation for the calendar year 1918.

The Government took possession of the railroads on December 28, 1917, but it has been agreed with the railroad companies that for all accounting purposes the accounting would begin with January 1, 1918, so that our fiscal year is the calendar year, and our first fiscal year, therefore, is the calendar year 1918; and in that year we earned approximately $200,000,000 less than was necessary to pay the rental which was contemplated by the act of Congress, so that that $200,000,000 of the $1,250,000,000 total that we are talking about would be absorbed in making up that loss.

Now, this loss, broadly speaking, came about in this way: The expenses of conducting the railroads under war conditions were abnormal for various reasons, leaving aside for the moment the increased wages which were made because of the competition with other lines of industry, and which wages were made retroactive in many cases to January 1, 1918; the expenses in the spring of 1918 were extraordinary on account of the abnormal weather conditions and on account of the serious state of congestion that the railroads were in when the Federal control began.

At the end of December, 1917, the extent of congestion was extraordinary. That was due to a considerable extent to the fact that in handling war material all sorts of priorities had been established by different departments of the Government, and this car had to be moved in priority to that car, and all sorts of Government stuff had to be moved in priority to private shipments. Now, that resulted in an extraordinary amount of switching in order to handle the business. You would handle a train, say, into Jersey City, and part of it would be priority stuff and part would not be, and you had to switch it out and give the priority stuff preferred handling, and that

resulted in an abnormal expense in handling the business. It also slowed down the handling of the business, so that when the Government took charge the yards of the roads in the East were so filled with cars that it was almost impossible to operate at all, and loaded cars were backed up on side-tracks clear out into Kansas and Nebraska—cars destined East—because the yards in the East were so crowded the frieght could not be received.

Now, all that contributed to a very great increase in operating cost. Then we had the extraordinary weather, the unprecedented winter, which slowed down——

Mr. GILLETT (interposing). Would it interrupt you if I asked a question along that line?

Mr. HINES. No, sir.

Mr. GILLETT. Could you make any estimate of the percentage of the congestion that was caused by the establishing of that priority?

Mr. HINES. I do not believe you could, Mr. Gillett. It was a very important factor. Another important factor, and the two blend so that you can not tell really which is which, was that under private control no way had been worked out to prevent a car being loaded when the consignee could not receive it at destination, so whenever there was an empty car and the shipper wanted to ship, he could put the stuff in the car and then the railroads had to worry to get that car to destination, whether it could be gotten there or not.

On account of the weather conditions, which were unprecedented, the losses were very serious. Of course, locomotives would not steam to anything like their normal winter capacity and locomotives were frozen up so as to be absolutely put out of business. The weather was so very severe that labor was far below its normal efficiency, and the result of all those unfavorable conditions, which confronted the Railroad Administration at the outset and which had to be worked through in the first few months of Federal control, was that at the end of April, the first four months of Government operation, January, February, March, and April, the railroads had fallen $105,000,000 behind what had been their net for the corresponding period in 1917.

Now, during those four months the railroads were still being operated by the corporations. The Government had taken them over, but for the time being the Director General had left the corporations in charge as agents for the Director General, so that no change in method of operation could be regarded as responsible for that loss; also, the increased wages were not charged into those months. Large wage increases, retroactive back to January 1, were afterwards allowed, but they were not ascertained until June and were not charged until June. So that leaving those wage increases out of consideration, for the first four months of 1918, on account of this congestion and the bad weather and the consequences bound up in those factors, there was a loss of $105,000,000 as compared with the corresponding four months of the preceding year.

Now, that was one important factor. Another was that throughout the year things had to be done in a way to get results without, in all caes, an opportunity to count the cost. For example, there was the very greatest tax on railroad employees for military service. We suffered not merely from the draft like any other industry, but we had the peculiar situation that in addition to the ordinary military service in France, there was a railroad military service which called

for a great many employees, and they had to be recruited almost entirely from the railroad ranks. So that we were in the position, different from any other industry, where we had to supply the employees needed for the railroad military service in France, and, in addition, supply our full proportion of employees subject to other military service.

In addition to this, there was intense competition with other industries for employees, especially in the East. We lost a great many employees, particularly shop employees and common labor, and to a considerable extent the trainmen and brakemen who went into other war employments which paid very high wages. This made a very great turnover in our employees, and we had to take on a great many inefficient men and new men who had to learn how to do the work.

As the year progressed, preparing all the time for the maximum war business, we had more and more to come to a policy where we would take any employee we could, whether he was a good one or not, because he was better than nobody, and consequently we had to pay a high price for labor, not only in the wage we paid but because we were not getting the trained labor we would have in normal times and because we were constantly bringing in new people and having to train them afresh.

In addition to that, on account of the shortage of labor, we had to get our shop labor, notably, to work a great deal of overtime. I think for part of the time we worked our shop labor 70 hours a week. They heartily cooperated as a patriotic measure, but beyond 48 hours a week all that was overtime at time and a half, so that that made a very heavy charge for the overtime labor. That was a war condition.

Now, the result along with those conditions, the increased wages, a large part of which was applicable for the 12 months, the very bad winter, the constant loss of experienced employees and the substitution of inexperienced employees, was that our operating costs for the year were abnormal, and they were abnormal largely because of these war conditions. While that made a 12 months' increased burden for operating costs, we got practically only six months' benefit from the increased rates which were established. The passenger rates went into effect June 10, so there were six months and two-thirds we had the benefit of the increased passenger rates, and the freight rates went into effect June 25, so that was practically six months and one-fifth benefit we had on the increased freight rates, so that six months' increased rate had to carry practically 12 months' increased operating costs, and the result of those factors is that for the 12 months our operating costs were such that we fell approximately $200,000,000 short of paying the rental, so that out of this $1,250,000,000, $200,000,000 has approximately got to be charged off on account of the increased expenses.

Now, as to the rest of the $1,250,000,000, and that is approximately $1,050,000,000, the situation is that that does not represent a loss to the Government, but is money that will be returned either in the course of Federal control or at the expiration of it. Of course there may be, and probably is, in that amount some amount which represents bad debts, which may either be very slow in being paid or may be lost altogether; but, broadly speaking, I think it is fair to say that the entire $1,050,000,000 will come back to the Government.

Now, the important question is how that divides, why we need all that money. I have felt, at least to present the matter in a broad way, the convenient thing is to show what will be the situation when we settle for 1918, and where our money would be found.

In order to settle for 1918 and clean up our accounts with the railroad companies, we will have to pay out to the railroad companies approximately $381,000,000. When we do that our investment or you might say our expenditure for the year 1918 would be represented by approximately $200,000,000 for this loss—it is put here at $196,000,000—and then by these other items: The Railroad Administration had cash on hand at the end of the calendar year 1918, $247,000,000, which represents a working capital or working cash capital, and approximately that much is needed in order to carry on the railroad business.

Mr. GILLETT. Is not that offset by what you had at the beginning? Did you not have that on hand when you first took them over?

Mr. HINES. No; I am going to explain that. We did not take over the cash of the corporations; in fact, they did not have it after they paid their bills. That represents money of the Government that is temporarily tied up as a working cash capital and approximately that amount has to be kept on hand, because otherwise—the operating expense per month of the Railroad Administration run about $325,-000,000, so that $247,000,000 represents less than one month's outgo, and unless an amount approximating that is kept on hand, it would not be practicable to meet promptly the pay roll and the bills that are rendered against the Railroad Administration.

Mr. VARE. Right there, Mr. Hines, I would like to ask you a question. By operating expenses you mean purely expenses of operation and maintenance of the rolling stock apart from new development?

Mr. HINES. Yes; purely the running expenses and maintenance Now then, another item we have tied up is current assets, December 31, amounting approximately to $92,000,000. That is represented by the moneys that are in the hands of agents and conductors amounting to $154,000,000 and advances which we have temporarily made to the railroad companies on open account for which under our general plan of contracts with them we, in effect, treat their materials and supplies as collateral, and that is $100,000,000, which make $254,-000,000, and then our outstanding liabilities on December 31 in the way of vouchers and other items to be paid at once amount to $162,000,000, which leaves the net amount tied up in current assets of $92,000,000. That, of course, will come back at the end of Federal control.

Mr. GILLETT. I do not quite understand why you need that $92,000,000. What do you mean by that?

Mr. HINES. I mean this, Mr. Gillett. We are now pointing out where the money has gone and what we have got to show for it. We have got in the hands of our agents and conductors, or did have December 31, $154,000,000. Then we have in the shape of advances to the corporation, for which we virtually have a lien on their materials and supplies which are in our possession, $100,000,000, and that makes $254,000,000. Now then, we owed on December 31 on bills that have been vouchered and are ready to be paid and were in the Treasurer's Office and on other items due at that time, $162,000,000, so that deducting that current liability of $162,000,000 from those

two items of current assets of $254,000,000, leaves us net assets which we will realize on at the end of Federal control, amounting to $92,000,000.

Now, another item into which our money in part has gone is a loan or a series of loans to the New York, New Haven & Hartford Railroad Co. of $51,475,000. The bulk of that is represented by two-year notes for $43,000,000 and some odd thousand dollars.

The situation respecting that New Haven loan is this: There was a very critical situation last spring, and, as I recall, the New Haven note issue of $43,500,000, approximately, was due on April 1, 1918. The New Haven was in a very unsatisfactory financial situation. The bankers took the position that they simply could not raise that money; that they could not go out and sell New Haven notes under conditions then existing and raise that money. It was immediately preceding the third liberty loan, and the general testimony we got was that these New Haven notes were so widely held by banks and financial institutions in New England that a default in the payment of those notes would have a most disastrous effect on the general financial situation of the country, and that it was virtually impossible to sell New Haven notes on the open market upon any terms at that time.

As a result of this, the Government decided that it would lend the New Haven the $43,500,000, taking the same collateral which had been put up to secure the other notes, and those notes mature April 1, 1920. The collateral is fairly good and I believe that that will be paid eventually, although the New Haven may not be able to pay all of it in 1920, but I assume they will be able to finance outside so as to be able to reimburse the Government; but that could not come back in this calendar year 1919. Now there was about $8,000,000 more lent to the New Haven road on account of its immediate necessities. Mr. Parker, my recollection is that that was for additions and betterments.

Mr. PARKER. Chiefly; yes, sir.

Mr. HINES. And the great bulk of that is the two-year note issue. Now, then, in addition to those items into which our money is tied up for the time being, after we have settled with the railroad companies for 1918 they will still owe us $290,000,000 for additions and betterments, and we will have a claim on the companies for that. To a large extent that represents equipment that we have placed with the companies and which will be secured by equipment trusts.

For the first year or two, or possibly the first three years, those equipment trusts will not be satisfactory securities to sell on the market, because the equipment was bought at a high price. The general theory of the equipment trust is that the companies pay 25 per cent down and pay the balance of the purchase price in 15 annual installments; that is, they pay 25 per cent down and the other 75 per cent is paid at the rate of 5 per cent a year, so that at the end of three years the companies will have paid the initial 25 per cent cash and three payments of 5 per cent each, or, in other words, 40 per cent of the purchase price of the equipment; and by that time the remaining 60 per cent of the purchase price of the equipment will be clearly beneath any market value the equipment is likely to have, even if the price falls considerably, so that I should say at the end of three years the part of this $290,000,000 which is represented by

equipment trusts will be an entirely good marketable security. It is generally recognized that an equipment trust is an exceptionally good security, because the company has to use this equipment, and therefore has to keep paying on this equipment trust.

They can not let them get in default, though they might other things. I shall be glad to give the committee an idea as to what part of the $290,000,000 will be represented by credit on equipment. I think, roughly, over half of it will be, perhaps considerably over half. The rest of the $290,000,000 represents amounts that the various railroad corporations owe us for additions and betterments and which can not be paid out of the surplus rental which the corporation has. We make up this table on this basis, that when we settle with the corporation for its rental and for our transactions back and forth for 1918 we will make the corporation pay back to us out of that rental everything in excess of what it needed to take care of its regular interest and dividends, and what it can not pay in that way is included in the $290,000,000. To a large extent that is owed by companies whose credit is perfectly good and to some extent it is owed by companies whose credit is questionable, but yet I believe there is very little of it that will not eventually be paid.

So that approximately $290,918,000 of the total expenditures for 1918, when we settle in full for 1918, will be represented by amounts which the companies owe us for additions and betterments, including equipment. These items which I have mentioned, the cash on hand, $247,000,000, the other net current assets of $92,000,000, the amount loaned the New Haven, $51,400,000, and the amount owed us by the companies for additions and betterments, including equipment, of $290,900,000, make a total of $681,000,000, which after settling in full for 1918 will be represented in items which will be paid back to the Government, except the cash, which we already have, but it will not be released from its present business use until the end of Federal control. That $681,000,000, representing what will come back to the Government, plus the $196,000,000 representing the loss for the calendar year 1918, accounts for all that we will have spent for 1918 after we make the settlement for the year, except what has been expended in connection with inland waterways, $4,361,000. Of that $4,361,000 about $500,000 represents an operating deficit sustained in conducting such inland waterways operations as we conducted for the year. That loss is largely due to the fact that certain inland waterways operations that we undertook to conduct were just starting, the operation was in its formative state, and naturally the business had not developed to an extent where it was profitable. The balance of the $4,361,000 paid out for inland waters represents an investment in property, nearly altogether in boats and barges which, of course, will still belong to the Government.

That will not represent a loss, although it is true that the equipment was bought at high prices, and on a peace basis it probably would not inventory what was paid for it. In that way we account for what we will have spent for the year 1918 when we make our settlement. It will require $381,000,000 to make that settlement. That, added to the $500,000,000 already appropriated, will make a total of $881,000,000 for the year 1918, and of that, $196,000,000, with perhaps $500,000 additional on account of the waterways, represents a loss and the rest of it represents an investment in cash or in other

quick-return assets or an advance to the railroad companies which will have to come back to the Government either through Federal control or at the end of it.

The CHAIRMAN. Of course, that is predicated on the assumption that all of your loans can and will be collected?

Mr. HINES. Yes, sir. There is an amount of bad debts, but I do not believe that is large.

Mr. SISSON. The 25 per cent—do you propose to charge the railroads for that?

Mr. HINES. That is not charged; it goes to their capital account; it is a part of the capital expenditure. It is an addition to their investment and property to that extent.

Mr. SISSON. Do you allow them a credit of 25 per cent?

Mr. HINES. No; they pay the full price. The general scheme of rate making in this country is that a company is entitled to a fair return on what it has put into the property.

Mr. SISSON. And that will also be taken care of in the future?

Mr. HINES. I do not think there is any question about that. In rate construction in the future they will be allowed a rental that will take care of that.

Mr. SISSON. Will they agree to that proposition?

Mr. HINES. A great many of them have already agreed, although reluctantly, to settle on that basis. Some of them are still objecting but I think that nearly all of them will agree.

I should add, with respect to the loans which the companies owe for additions and betterments and the amount that the New Haven owes for the advances we have made, that the Government on the present basis is receiving about 6 per cent interest so long as the moneys are not repaid.

That leaves to be provided, in order to settle up for 1918, $381,000,000, and if the $381,000,000 is so applied, then the $881,000,000 that will have been provided through the original fund and this $381,000,000 will be accounted for just as I have shown.

The CHAIRMAN. That contemplates also a payment by the Railroad Administration in full of the rentals due to the railroads?

Mr. HINES. Payment in full, subject to a reduction of all of that rental in excess of what the company needs to pay its interest and dividends; we take that back.

The CHAIRMAN. In this financial statement in which you figure an expenditure of $881,000,000, have you figured all of the rentals, or have you figured on taking credit against advances made to the roads in the way of betterments or otherwise that part of the rental which is over and above the interest on their indebtedness and their necessary dividend payments?

Mr. HINES. We have taken credit for that. We do not pay them the rental in full, or if we pay it in full we take it back.

The CHAIRMAN. Your financial statement includes that; in other words, you are not figuring on a payment to the companies of all the rentals, but only such part of the rentals as will enable the roads to meet their fixed obligations in the way of interest and their dividends on the basis of the prewar period?

Mr. HINES. Yes, sir; that is the effect of that. Of course, that money has to be provided for. As we now stand we have spent for additions and betterments $290,000,000, but we will take that back out of the rentals. That is the net after making that adjustment.

We come to the prospects for the year 1919 and what is needed for that year. It is estimated that to finance the expenditures contemplated on inland waterways we will need $12,840,000.

Mr. GILLETT. As to the inland waterways, is that for purchasing something?

Mr. HINES. That represents purchase of equipment.

The situation is that the Federal control act contained an express provision authorizing the use of the funds to develop operations of inland waterways. In pursuance of that authority and in pursuance of very urgent representations that some important developments were required the Railroad Administration undertook to acquire equipment, barges, and tugs, to be used on the New York State Barge Canal, and in additon it acquired equipment to operate on the Mississippi River between St. Louis and New Orleans, in addition it acquired equipment to operate on the Warrior River between the Alabama coal fields and Mobile, and equipment to operate in connection with the Warrior River operations on Mississippi Sound between Mobile and New Orleans.

Briefly they represent the inland waterways developments of any importance that have been undertaken. The Pennsylvania Railroad Co. has for many years owned the Delaware & Raritan Canal so that came over automatically with the Pennsylvania Railroad when that was taken under Government control. That has been operated by the Government in consequence, but on that particular operation there has been no expenditure for equipment, because that was a property already in operation and there was equipment already on the canal being used. Briefly that represents the expenditures for inland waterways. I might say that we were confronted with one other inland waterway proposition, and that was the Chesapeake & Ohio Canal between the coal fields of western Maryland and Washington. Last winter the coal situation was very acute and it was a very serious question if conditions continued as they were whether the coal needed for Washington, including the war activities in the vicinity of Washington, could steadily be brought here by railroad, and there was strong pressure brought to bear for us to take over that canal. The proposition was whether we should take over that canal. Instead of doing that we made an arrangement to operate the canal or to save the operating company from any operating deficit for the calendar year, for the season of 1918. That turned out to be a much more reasonable proposition than it would have been if we had taken the canal over, but in that connection we did order a few small barges for use on that canal and which we can hereafter use on the Delaware & Raritan Canal.

There was one other item that involved some expenditure, although not a large amount. Last summer when the submarine scare was quite pronounced, and with a good deal of basis, we took over the Cape Cod Canal. That had some very distinct advantages. It gives an inside route for the handling of business between Hampton Roads and New England. A great part of the traffic has to go that way. It substantially shortened the trip at a time when there was a very great shortage of coastwise ships and tugs and it gave a passage through the canal instead of a passage around outside, where there is a good deal of fog and a good deal of delay on account of the fog. That involved some slight expenditure. That is included in the $12,840,000.

The CHAIRMAN. Why was the taking over of the canal a necessary incident to its use, so as to reap the advantages which you have spoken of?

Mr. HINES. The situation was that the canal under private management had not been kept at a depth which would admit of the passage of the boats of the necessary draft and improvements were needed which it was impossible to get made at once by private management. The canal was taken over; we made the necessary improvements and organized it with tugs so as to give an expeditious handling of the traffic.

The CHAIRMAN. Roughly, what expenditure did that involve?

Mr. HINES. Mr. Parker, have you the figures for the Cape Cod Canal?

Mr. PARKER. $840,000 is the amount for 1919.

Mr. HINES. Does that include all expenses?

Mr. PARKER. That is the amount anticipated would be spent in 1919. The amount spent in 1918 was $450,000.

Mr. HINES. The next item after the inland waterways item is to finance the Boston & Maine reorganization, $20,000,000. That also was a very difficult local situation, and after a great deal of consideration and representation by New England interests of the peculiar hardships of the situation it was felt that it would be greatly in the interest of the general financial situation to take care of that reorganization by taking a series of 6 per cent bonds that would constitute a prior lien on the property. The reorganization was of a very favorable character, in that under the old Boston & Maine plan a very large part of its interest charges were in the nature of rentals for leased property, and the reorganization contemplates that the preferred stock be issued and those leased properties be acquired, so that what is hereafter paid out for the properties is paid out as dividends on the preferred stock, and therefore is postponed in right to the interest on these bonds. It makes the bond a very good investment. That means that the Government will have to carry it temporarily.

Mr. SISSON. That is the total?

Mr. HINES. The total indebtedness that we have to provide for in taking care of the reorganization, but there is other bonded indebtedness.

Mr. SISSON. This, however, is the prior lien or equal with it?

Mr. HINES. Equal with it.

Mr. SISSON. Do you recall what the other bonded indebtedness is?

Mr. HINES. No, sir. All the rentals being converted into preferred dividends and therefore being subsequent to the interest charge makes the bond a very satisfactory investment.

A statement of the bonded indebtedness follows:

Boston & Maine R. R.	$43,338,000
Fitchburg R. R. Co.	24,080,000
Boston & Lowell R. R. Corporation	6,114,000
The Concord & Montreal R. R.	7,223,000
Connecticut River R. R. Co.	2,259,000
Manchester & Lawrence R. R.	274,000
Vermont & Massachusetts R. R.	772,000
For advances from the Federal Government to pay indebtedness (approximate)	20,000,000
Total	104,060,000

The next item which we have to provide for 1919 is to finance equipment ordered in 1918 to be built in 1919, $286,000,000. That is a part of the equipment that we have already referred to, mostly cars, although some locomotives, and represents an amount which the Government through the Railroad Administration contracted for last spring and which will have to be paid in the next six months. It will, to a large extent, be financed through the equipment trust which the corporation will issue. Most of that money will be returned, but temporarily a very large part of the $286,000,000 will be tied up and therefore represents, I think, almost in its entirety, an amount which the Government will need to carry temporarily, although it will eventually come back. As I say, the equipment trusts are a preferred sort of security because the companies have to use the equipment and can not afford to default on it. I want to say that the difficulty about these particular trusts is that the first two or three years they are not particularly attractive as market investments, but that situation will improve as the installments are paid.

Mr. GILLETT. After being used three years is the equipment worth 60 per cent of the cost?

Mr. HINES. Yes, sir; a good deal more, it is estimated.

Mr. GILLETT. What is their life?

Mr. HINES. Roughly speaking, equipment does not depreciate over 4 per cent a year. That would be 12 per cent for three years.

Now, the other item in the general requirements for 1919 is $491,000,000 to finance other necessary capital expenditures for additions and betterments, including equipment. That represents the total that will be actually expended during the year 1919 both on projects that were entered on in 1918 and on new projects that will be entered on. In the war period we had to order certain things which seemed to us essential and we could not wait to get the corporation's consent or cooperation, but we have adopted the definite policy, now that the armistice has been signed, that additional betterments will not be made or additional equipment ordered except with the consent of the corporation and its cooperation, unless there is some exceptional emergency which necessitates it.

The $491,000,000 represents the aggregate figure which we estimate will be approximately what will have to be spent actually during the year in carrying out additions and betterments and the purchase of equipment which may be carried on with the consent of the corporation or which are so essential that they have to be made even though the corporation does not consent. That makes a total of $809,000,000 which we estimate will actually have to be expended in 1919. We also estimate that out of the rentals that we pay the companies for 1919 we can take back $150,000,000 to apply on the payment of these things which we pay for the companies. That will leave $659,000,000 to be provided from other sources. Our thought is that the corporations can be required and will finance a very substantial part of that, so that we ask $750,000,000; $381,000,000 of it is needed to take care of the settlement for 1918. That leaves $369,000,000. Of that there will be practically $32,000,000 for the Boston & Maine reorganization and the inland waterways. That leaves $336,000,000 to provide of this total that we estimate must be provided for 1919. We assume that we will get the corporations to

finance in addition to paying $150,000,000 out of their compensation $290,000,000 of the additional necessary expenditures.

As conditions clear up I am hopeful that more and more of the amounts that we advance for the benefit of the corporations will be financed by the corporations, but we are confronted with a situation where it is highly important to finance the matter temporarily, because we can not instantly get the corporations to go into the open market and borrow the money necessary to pay the $290,000,000 for last year or this additional amount which we will have to spend for this year. That is partly due to the fact that these equipment trusts are not particularly marketable at the beginning and partly due to the fact that even with the additions and betterments it takes a little time to work these things out. There can not be an instantaneous conversion of these debts into actual cash to be paid the administration.

That roughly outlines the necessity for the $750,000,000. I want now to answer certain general questions which I have no doubt have occurred to you. The chairman has indicated that some of them are questions in his own mind. In the first place, the question arises as to why the Government has to tie up its own cash in the working capital and another question, which is related, that is as to why the Government did not get the amount that the railroad companies had tied up in agents' and conductors' balances at the beginning of Federal control.

The railroad companies at the time of Federal control were not in a sure financial situation, many of them. They had bought a lot of materials and supplies which had to be kept on hand, and in many instances they had not paid for them. They had a lot of other outstanding current liabilities, and while theoretically a corporation operating a railroad has a working cash capital, yet the actual situation was, as my assistant, Mr. Parker, can point out in detail if the committee wants to go into it, that if the companies paid their current debts they did not have these items in free cash and the financial situation was such that it would have been very unfavorable from the Government's own standpoint if all of these bills had remained unpaid.

Mr. Hines. It was a part of the definite policy of the Government in taking over the railroads as indicated in the President's statement of why he took them over and as indicated in the act itself, that the moneys of the Government were to be used to protect the financial situation. Now, if we had gone ahead on a basis that required the companies to turn over all these current assets, and had left the companies to dispose of their current liabilities from other sources, the result would have been the current liabilities would not have been paid, and there would have been a great deal of business distress over the country on account of the inability of business concerns to collect what was owed them by the railroad companies. The consequence was that it was a practical necessity in protecting the financial situation to let the companies have whatever current assets they had in the way of cash and in the way of conductors' and agents' balances, etc., to pay their current liabilities and to take care of that situation.

Mr. Sisson. Did that situation exist generally with all the railroads?

Mr. HINES. There were some exceptions, a few exceptions, but it was quite widespread, and on an average for the whole situation the current liabilities exceeded the current assets, as I understand it, so on a complete clean-up they could not have paid everything they owed.

Mr. SISSON. But in a few instances moneys in the hands of conductors and agents of the railroads, amounting to more than their liabilities, went back to the stockholders?

Mr. HINES. It did not go back to the stockholders. It remained in the treasury of the corporation, and as a practical matter, has played a part in enabling the company to finance to a greater extent the additions and betterments we have made for it than it could have done if we had taken that money away from them.

Mr. SISSON. So you did, in some instances, use the money in the hands of the conductors and agents?

Mr. HINES. We credited the companies in all instances with what we took over of the agents' and conductors' balances, but I have in mind a situation of this sort: The company I used to be connected with, the Atchison, Topeka & Santa Fe, was peculiarly favorably situated from a cash standpoint, and, of course, in that particular instance, it could have paid its current liabilities and still have had some cash remaining, but the situation is that to whatever extent it has had cash, it has been able to that much greater extent to take care of what we spent or required it to spend for additions and betterments.

Mr. SISSON. In order to help the Government finance its improvements and betterments?

Mr. HINES. Yes. There was quite a discussion as to how this working cash matter ought to be considered. There was quite a theory on the part of some of our members in the Railroad Administration as to whether the company should not be required to furnish a working cash capital, and it was one of the points that was reserved for Director General McAdoo's personal decision after a great many other matters had been thrashed out. The companies objected very strongly to it, and the matter was submitted, and the controlling factor was that it was not there, in many cases, and to require a few companies to furnish working cash capital when most of them did not have any, was not a reasonably uniform method of dealing with them, and after all, as I look at it, the companies that had some extra cash have been simply put in a position where they could use that cash to meet other expenses which the Railroad Administration is requiring them to take care of, so, to a large extent, that is as broad as it is long. But aside from these exceptional cases, the situation is that the companies needed all the cash and current assets they had at the time of Federal control to take care of their current liabilities. In that connection, this must be remembered, that the materials and supplies, which perhaps is the most important item, came over to the Railroad Administration as a part of the property, and in many cases a very considerable part of their current liabilities were the bills they owed for the materials and supplies which the Railroad Administration had taken over and was using.

The companies urged very strongly that we ought to pay them for the materials and supplies and furnish them that cash, and said they

could not pay their bills without it; but we took the position that the materials and supplies were a part of the physical property and an essential incident to running a railroad and that they came with the property, and that we were entitled to them for the rental we paid, and that we would not credit them with those materials and supplies or pay them the cash for them.

Then there was a group of cases where we did consent to pay certain items on open account for them and hold a lien on their materials and supplies as collateral, and that accounts for the $100,000,000 item I have pointed out here, and that represents a part of our assets that are temporarily tied up.

Mr. SISSON. One other question: Were those railroad companies that were not in shape without the assistance of the Government to pay their current expenses charged any interest by the Government for the money advanced, or was the company that was in condition to carry its own operating expenses without the Government's help allowed any interest?

Mr. HINES. As to operating expenses, you see the company took care of them up to December 31, and beginning with January 1 the Government took care of the operating expenses. There may have been some bills that matured or came in in 1918 for things which were operating expenses and which the company owed for, but the general proposition has been where the Government paid out money for the company it charged the company interest, and if it used the company's money for its own purposes it credited the company with interest, and then in the first settlement that would all be balanced up.

Now, another question, of course, is why should the Government finance these conditions and betterments? Why should not the companies be told, and why should they not have been told to begin with, to go out and borrow the money; and why should we not tell them that now?

As I have said, at the time the railroads were taken over one of the distinct causes that was recognized as a justification for that course was the fact that railroad credit at that time was bad. The interest rates were very high; the companies were claiming that their rates were not sufficient to give them the necessary credit, even in normal times—they had appealed to the commission for increased rates, and the commission had suggested that instead of allowing those rates the situation seemed so complicated that the Government had better take the railroads over; and the conditions generally were such that the railroads could not raise the money instantly which they needed to make the expenditures which ought to be made for war purposes, so that when the railroads were taken over that was a distinctly recognized part of the governmental policy, and, really, I think the $500,000,000 fund was provided for that purpose, because at the outset I do not think anybody realized how the taking over of a going concern was going to tie up cash as this did. They did not have that in mind, and I think the whole $500,000,000 was looked on as almost wholly a fund to be used in aiding in the financing of additions and betterments. Indeed, the railroad companies have never ceased to insist that it was the duty of the Government, under the Federal control act, to buy and pay for all the equipment, and own it, and not make the companies buy it at all.

We have refused to take that view, but there was always the thought that the Government would aid as far as might be necessary in these financial matters, for two purposes: In the first place, so as to get the improvements made that ought to be made, and in some matters very indispensable to the war that was the only way to get the improvements, to furnish the money, because the companies could not, as conditions were last winter, raise the money on anything approaching reasonable terms. The Government itself was in the market for large amounts of money, and it was distinctly against the Government's policy for private enterprises to go out and bid up the interest rate in order to get money. So that was how it came about that the Railroad Administration started in financing a large part of these additions and betterments. It was a part of the general plan and to aid the general financial scheme of the Government.

Now, at present the situation is that temporarily to carry out that plan we need part of this money, as I have pointed out. We needed for 1918 about $290,000,000 to take care of additions and betterments which the companies can not pay for out of their surplus rentals. In addition to that we have this large item of equipment—$286,000,000—which can not be instantly financed, although it can be eventually. Aside from those two big items, to a very large extent, we do expect the corporations instantly to do their own financing, but we can not get it all done immediately, and therefore the amount I have suggested, it seems to me, is as little as we can safely propose so as to carry this situation through the year.

Now, I wanted to point out some of the practical aspects of this matter, and the best way to bring them out, it seems to me, in a concrete way, is to suppose what would happen if Congress did not make any appropriation; just suppose nothing was done at this Congress.

As I look at it, there would be three consequences which would be most unfortunate, aside from the fact that the Government would not be meeting its obligations.

In the first place, not being able to settle with the railroad companies, they would be at once thrown into confusion in carrying on their own affairs with their bondholders and their stockholders, and it would be a most disturbing factor. It would be so at any time, but would be particularly so at a time immediately preceding the raising of another Government loan.

In the second place, it would very greatly interfere with the payment for this equipment, which is being constructed right along and being delivered very rapidly, the bills for which are due as equipment is delivered, and it would very seriously upset the ability of these manufacturing enterprises to make their settlements with their employees and to make their settlements with people from whom they have bought materials, and it would set in motion a general tightening of the situation which would be most prejudicial to the general interests of the Government at any time, and particularly so right on the eve of raising another loan.

Now, there is another very important consequence, and that is this: If we got no appropriation or got an inadequate one, in addition to having to stand off the railroad companies on what we owe them,

and the equipment companies on what we owe them, we would at once have to cut right down to the bone what we should expend for additions and betterments. Now, that would be at a time when the general Government policy, evidently, is in favor of enlarging rather than cutting down the amount of work done, so as to help stabilize the industrial situation. It is perhaps not very bad yet, but it promises to get worse.

There promises to be more unemployment, and to have that situation, which inevitably is unfavorable, accentuated by the Railroad Administration having to contract instantly and cut everything it does right down to the bone would be an exceedingly unfavorable factor. On the other hand, the prompt making of this appropriation would create a feeling of encouragement, and they would realize that the Railroad Administration was thereby put in a position to go ahead with a reasonable amount of improvement work and furnish additional employment and to develop a purchasing power which would be in the public interest. Now, that is what I had in mind to put before you, in a general way.

The CHAIRMAN. Now, Mr. Hines, first, it is evident that your financial statement contemplates that should the Government continue to operate the railroads this year, there will not be any deficit incurred in connection with the earnings from the roads that would prevent a payment of the rentals that have been agreed upon and will be agreed upon. In other words, you have taken into your balance sheet no item for this year corresponding to the $196,000,000 of loss of last year.

Mr. HINES. That is true. I felt that that was so highly speculative for this year that we ought not to undertake to make any prediction about it, and if any operating loss occurs it will, in effect, be carried on to the point where it can be taken care of in the future; but the whole thing is involved in so many elements of uncertainty that you simply can not forecast about it.

The CHAIRMAN. Now, the statement of what the Government in your judgment will need to do is made irrespective of continued operation by the Government of the railroads?

Mr. HINES. Yes; I assume that even if the Government should release the railroads next fall, and I doubt very much if there could be a relinguishment earlier than that, the things called for in the interest of safety and obvious public convenience, would involve very largely the expenditures I have indicated here for 1919, and of course if Government control goes on into 1920, then I think practically the whole program I have outlined would be carried on, and virtually all of it would be done or we would be committed to it even if we gave up the railroads in the fall.

The CHAIRMAN. And that would hold true if we gave them up as of the 1st of July?

Mr. HINES. Practically so. The biggest item of all, and the most urgent item of all, is this equipment which we are obligated for, and I take it it will all be delivered by then, and these other things will come forward through the early part of the year.

The CHAIRMAN. Unless you assume the railroads would not themselves be able to do it, and therefore we would have to extend the aid, there would be the difference of what might be called your working

capital as operators of the railroads of some two hundred and odd million dollars?

Mr. HINES. If the control stopped, when we made a settlement that would come back; but the settlement would involve several months, and I do not believe we would get a settlement until six months or more after the thing changed, and then we would get the money back with interest.

The CHAIRMAN. It results, therefore, from your viewpoint, that irrespective of any policy that may be adopted by the Congress touching the railroads, having entered upon the matter and being in the situation which you have outlined, it will need to finance to the extent of $750,000,000 more the railroads?

Mr. HINES. That is my judgment; yes.

DEFICIT IN GOVERNMENT OPERATION OF RAILROADS—INCREASES IN PAY.

The CHAIRMAN. Now, it may be interesting to ascertain somewhat the facts in connection with the actual operation of the roads as illuminating on the deficit of $196,000,000 which has been incurred. Are you able to advise us as to the increase in wages over the fiscal year that resulted from the action of the Government in changing the rates of compensation?

Mr. HINES. I do not believe that any accurate figure can be given, because you can not segregate the part of the increase that was due to the increase in the rate of wage and the part that was due to the increased wages paid on account of the overtime and on account of less efficient labor having been employed, and the constant overturn of labor. We could give you a total figure which would be an approximation of the increased wage bill for 1918 as compared with 1917, but that would be only in part due to the increased rate of wages, and it would involve these other factors.

The CHAIRMAN. But can you not estimate what it would have cost in the way of wages, even assuming that the same amount of overtime would have taken place? The overtime simply served to accentuate the result of the increase of wages.

Mr. HINES. Yes; that is true. The other item, which, I think, in the aggreagate is a very important one, is absolutely illusive; that is, the extent to which more money was paid out in wages because the men employed were less experienced and did less work for the money they got.

The CHAIRMAN. Of course, that would involve simply the question of additional employees. What I am endeavoring to ascertain is, assuming you would have had the same number of employees and worked them for the same length of time so as to involve the same question of overtime, how much additional was paid them as a result of the increased basis of compensation.

Mr. HINES. I should think we could work out figures along this line, taking the actual labor performance in 1917 and applying to that the increased wages that were applied in 1918, and then see what the difference was. That would be suggestive.

Along in the late fall of 1917 the railroad companies were confronted by the most insistent demand for increased wages. Railroad

labor claimed that the cost of living had gone up to such an extent that it could not afford to work for the pay it was getting and that the pay had come to be very much out of line with the wages that were being paid in other industries. The situation was in a very serious foment at the beginning of Federal control. The various classes of labor were insisting that they must have an increase in wages at once. I am satisfied that if Federal control had not intervened there would have been a very serious strike just at that time to force a settlement.

Mr. CANNON. What time was that?

Mr. HINES. That was the situation that was brewing in December, 1917, when we took over the railroads.

Mr. CANNON. That was subsequent to the passage of the Adamson law?

Mr. HINES. That act was passed in September, 1916, effective January 1, 1917.

The way Director General McAdoo dealt with that was this: He said to the representatives of labor, who were clamoring for an immediate increase to meet an undoubted increase in the cost of living, that he would as soon as possible appoint a wage commission to study the whole matter and that he would, as soon as that commission made a report, make an award on the wage question and would make that award retroactive to January 1. Those people were demanding this as of January 1st before he did it. He then appointed this commission, consisting of Mr. Lane, Mr. McChord, Judge Covington, and Mr. Wilcox. The commission made its report, outlining a general scheme of wages, and when that report was acted on and those wage rates were established they were made retroactive to January 1, because that was the arrangement under which labor had worked in the meantime, that whatever was allowed as the result of the report would be made retroactive. It was demanding that at January 1, and was on the point of striking as against the private owners in order to get it.

It was recognized that the situation was so complex and also that the competitive conditions of every sort of labor were so serious, that that general treatment which the Lane commission made would not meet the whole situation, so a board of wages and working conditions was created which consisted of three representatives of the railroad management, railroad officials who had long been in the service dealing with labor, and dealing with it, of course, from the private corporation standpoint, and it consisted also of three representatives of labor. That was a bipartisan board of six, three railroad representatives and three labor representatives, and every claim for any adjustment of wages in addition to what was allowed on the basis of the report of the Lane commission was referred to that bipartisan board. That bipartisan board went into the matter and made recommendations, and those recommendations were what have constituted the basis for the allowance of increases in addition to the Lane report.

Now, with respect to those figures, I will be glad to give them to you; I have this feeling, that it is not entirely immaterial as to the inference you draw, because I feel there has been a widespread impression that the increased wages allowed have been more than they ought to have been, and there has been a disposition on the part of

a good deal of the public to claim that the rate of wage that the labor is getting is unjustly high. My own view is that that is an unfair inference, not only as against the Railroad Administration—I am not concerned about that—but against labor itself; but I think that much of the total wage bill as paid for 1918 was due to things that had nothing to do with the wage rates. We can give you some figures, and what I want to get clearly in mind is this, which is entirely in line with what the chairman suggested, that, for example, we can make an estimate as to what the wage bill for 1918 would have been at the old rate, and then what the wage bill is at the new rate. That will show the difference. I understand that is one method of calculation you would like. There are two factors that strike me as important which are so elusive that you can not weigh them exactly, and yet they are of substantial importance. One is that it will be hard to segregate the overtime that was necessary.

An increased rate on overtime will be hard to express, and yet that is an important factor, and being time and a half, it gives itself an undue weight in the total figure. Then there is this other, that in the development of a comprehensive wage plan we thought that some classes of employees made a perfectly proper and natural insistence that they should not be compelled to work 365 days a year. A great many of the clerical force and telegraph operators have been working every day in the week and every week in the year, and in making the final wage basis for this class of employees it was made on a basis so that they were paid for the time they worked. I anticipate that one of the results of that is going to be that in the future we will not make these men work so long, and yet they will do the necessary work. When a man was paid a fixed salary per month and it did not make any difference in point of cost whether he worked six days a week or seven days a week, it had always been the practice to make him come to the office on Sunday and stay there all day. If an employee has to come now, it is going to cost money for him to stay all day on Sunday. The result will be that they will rearrange the work, and he will not have to stay. As those things are readjusted the amount paid in the wages of the men will be less than computed during the year 1918, before this more rational plan of office hours had been established. Elements of that sort will result in the total figure that we can give showing the total increased wage cost, which, in my opinion, is much more than will be the real increase paid for the future when the things are adjusted to the new rates of pay. Therefore it will be misleading; but I do not deny that it is a factor of very great importance and that you should have it.

The CHAIRMAN. Broadly speaking, what per cent do the wages bear to the operating costs?

Mr. PARKER. About 58 per cent, I think, at the present time. It averages from 57 to 60 per cent.

NOTE.—The director general subsequently offered in evidence a statement showing the percentage which labor bore to the total operating expenses for the years 1908 to 1917, inclusive. It will be noted that the percentage in 1917 was 61.26. In connection with the figure of 58 per cent given by Mr. Parker, it is to be observed that that figure was one arrived at by earlier estimates before the facts were known in as complete shape as at present, at which time it was thought that the advances in price of materials had been relatively greater than the advances in the wages and that this would

have the effect of making the percentage of labor to total operating expenses relatively lower. The statement referred to is as follows:

[From Thirty-second Annual Report of Interstate Commerce Commission.]

	Total operating expenses.	Operating expenses per ton-mile.[1]	Compensation paid to employees.		
			Total.	Per cent of operating expenses.	Per ton-mile.[1]
Year ended June 30—		*Mills.*			*Mills.*
1908	$1,710,401,791	5.596	$1,035,437,528	60.54	3.388
1909	1,650,034,204	5.390	988,323,694	59.90	3.228
1910	1,881,879,118	5.346	1,143,725,306	60.78	3.249
1911	1,976,331,864	5.593	1,208,466,470	61.15	3.420
1912	2,035,057,529	5.599	1,252,347,697	61.54	3.445
1913	2,249,277,937	5.544	1,381,334,368	61.41	3.404
1914	2,279,408,486	5.775	1,381,117,292	60.59	3.499
1915	2,088,682,956	5.576	1,242,319,254	59.48	3.317
1916	2,277,202,278	5.101	1,403,968,437	61.65	3.145
Year ended Dec. 31—					
1916	2,426,250,521	5.142	1,506,960,995	62.11	3.198
1917[2]	2,908,346,474	5.605	1,781,514,212	61.26	3.433

[1] Including passenger-miles reduced to a ton-mile basis. Mail and express traffic not included in ton-miles.
[2] Estimated on basis of compilations covering the large roads.

NOTE.—The above statement includes all railroads. The compensation paid to employees includes charges to additions and betterments as well as to operating expenses.

The CHAIRMAN. In the establishment of these wages were they established on the basis of uniformity of payment for similar work, irrespective of locality?

Mr. HINES. Not entirely. Certain minimum rates were established irrespective of locality, and that minimum rate, as I understand, was generally based on what had formerly been paid in that locality. It had a relation to the old rate subject to certain increased minimums which were uniform in their application.

The CHAIRMAN. I got the impression somewhere that wages had been more or less standardized without regard to locality, with the very unhappy result, if that were true, that as to certain classes of employment the compensation would represent in one community a very much larger return, having in mind the cost of living and the elements upon which the rate increase was predicated, than it would have in another community where very much more expensive living costs existed?

Mr. HINES. That has been true to a considerable extent. Through the operation of these minimum rates the tendency for many years has been very steadily in the direction of standardization, but there is not a complete standardization yet.

The CHAIRMAN. Has it not been a standardization largely confined to the particular roads, whereas the moment the Government got to operating all of them then your standardization spread all out over the country?

Mr. HINES. It had gone beyond the particular roads under private management, because the labor organizations were not confined to particular roads; they were standardizing as between all roads. It was a movement perfectly steady in progress.

The CHAIRMAN. I presume that was true of a great deal of labor represented by organizations, but a great deal of the labor, particularly the clerical labor of the railroads was not organized at all, where the variation in prices were very great?

Mr. HINES. Yes, sir. The clerical labor was beginning to be organized in some parts of the country and other classes of labor where the variations were very wide, but I assume that by the minimums those variations were removed to a considerable extent.

Mr. CANNON. You spoke of 58 per cent of the operationg expenses —what percentage of the operating expenses was paid prior to the passage of the Adamson bill?

The CHAIRMAN. If I understand Mr. Cannon's question it is what increase in the percentage of the total operating expenses resulted from the increase under the Adamson law.

Mr. CANNON. And subsequently.

Increase in wages resulting from Adamson law, as reported on page 13 of the Report of the Eight-Hour Commission, based on wages paid for the calendar year 1916.

	Increased wages.	
	Per cent of increase in wages.	Amount. of increase based on wages paid in 1916.
Passenger service	2.73	$2,532,097
Freight service	15.03	31,668,998
Yard service	24.60	27,333,437
Hostlers (approximate)	25.00	1,750,000
Total	....	63,284,532

Mr. PARKER. I can not answer those questions offhand.

Mr. HINES. We will look into that.

NOTE.—The director general subsequently placed in the record a statement showing the total estimated pay roll of Class I roads for the year ended December 31, 1918, showing the estimated effect of the increase in wages, and such statement is as follows:

Statement showing estimated pay roll charges, excluding increases due to increase in rates of pay for the year 1918, and showing estimated increases due to changes in rates of pay and collateral increases made necessary thereby.

Operating expense account.	Estimated pay roll charges, excluding increases.	Total estimated increase.	Per cent total increases over rates of December, 1917.
Maintenance of way and structure	$321,791,000	$96,290,000	29.9
Maintenance of equipment	433,594,000	201,898,000	46.6
Traffic expenses	24,508,000	3,620,000	14.8
Transportation	972,480,000	266,334,000	27.4
General expense	70,420,000	15,410,000	21.9
Total, all operating expenses	1,822,793,000	583,552,000	32.0

The statement does not include the effect of increases covered by supplements 12 and 13, which were promulgated in December, 1918, with regard to which reliable data are not available. The amount of such increases will be relatively small.

Elsewhere in the testimony it will be observed that the director general gave a figure representing the estimated increases in operating expenses due to the changes in rates of pay of $642,000,000. The difference between that figure and the one shown in the statement above is accounted for by the fact that at the time of filing the above statement more complete data had come to hand than was available at the time the estimate of $642,000,000 was made.

Attention has been called in various places throughout the record to the fact that complete information as to the operations for 1918 can not be available earlier than March 1. It is important that this should be borne in mind in connection with the above statement. The figure of $642,000,000 represented the best estimate that could be made from the information then available. From time to time as additional data are received from the roads, the estimates are revised and the $583,000,000 represents the latest information on the subject.

INCREASE IN RECEIPTS FROM INCREASE IN RATES.

The CHAIRMAN. In this same connection has any calculation been made as to the increase in receipts that flowed from the increased rates that were made by the Railroad Administration?

Mr. HINES. Yes. We have pretty close figures that we can give you on that.

The CHAIRMAN. We will be glad to have you place in the record a statement as to the increase that resulted from the increase in rates; that is, over the six months' period.

Mr. HINES. Yes, sir.

The CHAIRMAN. Of course, that is irrespective of any question of volume of business or length of haul due to orders and control that was exercised by the Railroad Administration touching the freight that could be shipped, the routing of such freight, and so forth?

Mr. HINES. That will apply to the business as it moved.

The CHAIRMAN. Yes; but without regard to whether the volume of the business was affected either through active orders of the administration or whether the increased rate served to affect the volume?

Mr. HINES. Yes, sir.

NOTE.—The Director General subsequently filed a statement showing the estimated increase in revenues for 1918 on account of increase in freight and passenger rates, which showed that the estimated increase amounted, for the year 1918, to $560,504,530 for class I railroads and large terminal companies.

UNITED STATES RAILROAD ADMINISTRATION—CLASS I ROADS AND LARGE TERMINAL COMPANIES.

Estimated increase in revenues in 1918 account increase in freight and passenger rates:

Total revenues 12 months ended Dec. 31, 1918	$4,883,970,652
Total revenues 6 months ended June 30, 1918	2,081,448,000
Total revenues 6 months ended Dec. 31, 1918	2,802,522,652
Estimated total revenues excluding increases of 25 per cent in rates	2,242,018,122
Estimated increase in revenue due to increased rates	560,504,530

This increase divides between freight and passenger revenues approximately as follows:

Freight revenue	$414,773,352
Passenger revenue	145,731,178
Total	560,504,530

OPERATING EXPENSES.

The CHAIRMAN. You have stated that you have assumed simply a return from operating the roads equal to the payment of the rentals for the present calendar year; that you did not make any prophecy because of the many uncertain factors that enter into that. It, however, is a matter that Congress must consider in connection with

whether the railroads shall or shall not be continued under Government control. Do you feel that it is likely that you will be able to get returns sufficient to pay your operating expenses and your rentals?

Mr. HINES. That is a particularly difficult question this year on account of the unusually disturbing factors as to the volume of business and also because right now we are going through these processes of readjusting operating expenses. The outlook is that in the first six months of this year there will be a considerable falling off in business. On the other hand, the outlook is for an extraordinarily large crop this year, which could readily make an unusually large business in the fall. Along with that fluctuating condition we do know that these operating matters are undergoing readjustment. For example, I do not know whether I mentioned this to you gentlemen or not, but it is a matter that I attach substantial importance to.

Under war conditions we had to respond in the promptest possible way to the demands for cars. We had to send cars regardless of their original location, any and everywhere and keep them there, entirely away from the peace-time practice, under private management, of returning a car to its home road. That resulted in our having to repair those cars to a large extent in foreign shops instead of in the home shops. Of course, the existing cars of this country have a good many different types and very generally the home shop is better prepared to repair cars of the particular type that belong to the home road. When these cars had to be repaired on foreign roads it meant an increased cost for repairing. There was also the difficulty of having to use cars so promptly and for a large part of the year and having a car supply that was inadequate to the demand. We had to use cars wherever they were, whereas if we could have returned the car to the home line it would have been better adapted to handle the traffic originating on the home line. The war condition being over we have already started to return the cars and these cars will be gradually returned to their home lines so that they will be used in the traffic for which best adapted, and also when the time comes to repair them they will be repaired in the shops where they they can be repaired more economically. Both of those elements will have a substantial effect on the operating costs.

Mr. SISSON. That has been one of the great problems with the railroads, to be able to haul as near as possible full cars instead of empty cars?

Mr. HINES. Yes, sir.

Mr. SISSON. The roads have never been able to make satisfactory agreements in regard to the return of their cars in the quickest possible time, and they are compelled to haul great trainloads of empties. There would be less coal and less labor consumed if they could. Under Government control has there been any effort to standardize the use of cars so as to get the most economical use out of the cars?

Mr. HINES. Under the war condition we were in a situation where the need to handle the traffic was so urgent that to an unusual extent we had to send cars empty and we sent them any distance empty to get them there, to get the war materials and carry them to destination. So there was a much greater movement of empty cars, in my opinion, under war conditions than there need be under peace conditions. My thought is that there is an advantage in the unified

control, getting the best service out of a car, but I think that you are going to be able to get the cars back on the home lines to a much greater extent than possible during the war conditions.

Mr. SISSON. If some system of interchange could be worked out by the railroads to keep trace of the cars, of course, it would be most remarkable, and I agree that is a very serious item of railroad operation.

Mr. HINES. I mention it as an illustration of the sort of readjustment that is going on now that will have an effect on operating costs.

Answering the chairman's question, with all of these speculative elements, unusually speculative as to the settlement of business and as to these readjustment processes following the war period, it is much more difficult this year than any other to make a prediction as to how the thing is going to come out. I should say that everything considered it looks now as if we could not reasonably expect any substantial surplus over the rental. We may find a moderate deficit under the rental, but I do not think it will be enough to affect the estimate one way or the other for the appropriation. That may be very much upset unfavorably if there is a very radical falling off in business. On the other hand, it may turn out very much more favorably if there is in the latter part of the year a substantial increase in the business.

The CHAIRMAN. You have had but one month of operation this year?

Mr. HINES. Yes, sir; one month.

The CHAIRMAN. Have you your returns for it?

Mr. HINES. We can not get the returns for one month until the 1st or 2d of the second following month. That is, the operating costs. They begin to come in about the 25th of February, that is, we will begin to get our returns of operating costs for January, and it will be completed along in the first two or three days of March.

The CHAIRMAN. In a general way, has the volume of business been holding up or falling off?

Mr. HINES. It has begun to fall off; not alarmingly. It has been picking up in some ways, but some large sorts of traffic, notably coal, have fallen off considerably, and the immediate outlook is a substantial falling off in the next few months.

The CHAIRMAN. Do you recall what your gross receipts were from operation of the roads for the past calendar year?

Mr. HINES. Mr. Parker, you can give the exact figures, can you not?

Mr. PARKER. About $5,000,000,000—$5,040,000,000.

The CHAIRMAN. The total receipts?

Mr. PARKER. Yes, sir.

The CHAIRMAN. For all companies?

Mr. PARKER. Yes, sir.

The CHAIRMAN. And the total operating expenses were what?

Mr. PARKER. $4,091,000,000.

The CHAIRMAN. What do you estimate your payments as rentals at?

Mr. PARKER. $928,000,000.

The CHAIRMAN. It is that added to your expenditures which gives you an amount of approximately $196,000,000 in excess of your receipts?

Mr. PARKER. Yes, sir; but I should call attention to the fact that I answered your question, when you spoke of operating expenses using "operating expenses" in a technical sense. We have in addition to that taxes of $195,000,000, and the equipment and joint facility rents which are paid under the Federal control act, of about $23,300,000. Operating expenses, taxes, and rents would aggregate approximately $4,310,000,000.

Mr. SISSON. How does your overhead compare with the overhead charge of private operation? Can you give that figure?

Mr. PARKER. By overhead charge you mean——

Mr. SISSON. I mean the management of the home office, and so on; not those actually engaged in the moving of the trains, but the directing force—the president, passenger agents, and officers of that kind.

Mr. PARKER. I can give you the exact figures on general expenses which I think is the item you have in mind for 11 months of 1918. We have not the details for the 12 months. For 11 months the general expenses in 1917 were $88,058,000, and in 1918 $101,994,000, or an increase of $13,936,000.

Mr. HINES. Mr. Parker, do those figures include the expenses of the central administration and the regional administration?

Mr. PARKER. No, sir.

Mr. HINES. I think, to complete the matter, they ought to be included. The amount is not large but it is incomplete without that.

Mr. SISSON. You know what I want, Mr. Hines?

Mr. HINES. Yes, sir.

The CHAIRMAN. Is it possible to place in the record a statement for the entire calendar year in the form in which you summarized it, and which, I take it, is the standard form that has been adopted by the Interstate Commerce Commission for the stating of railroad accounts, of your gross receipts, your expenditures other than rentals, and in expenditure such separation as would show the usual classification of what Mr. Sisson has been speaking of as overhead, wages, etc., and then a statement as to the rentals which you are required to pay under your agreements with the railroads?

Mr. PARKER. Yes, sir. I think this statement is approximately what you have in mind, and I will insert that.

NOTE.—The director general subsequently offered a statement showing the estimated income account for 1918 compared with the income account for 1917, for Class I roads and large terminal companies.

The figures given are approximately actual and are based upon reports to the Interstate Commerce Commission. The figures relate to Class I roads (roads having operating revenues of $1,000,000 or over) and large terminal companies, because the reports to the Interstate Commerce Commission, upon which the Railroad Administration has heretofore been accustomed to rely, comprehend only those companies.

The figures for all other companies under Federal control represent relatively a very small amount of additional revenues, expenses, etc.

United States Railroad Administration—Class I roads and large terminal companies estimated income account for 1918 compared with income account for 1917.

	Class I railroads and large terminal companies.	
	1918	1917
Operating revenues	$4,883,970,652	$4,041,014,[illegible]
Operating expenses:		
Maintenance of way and structures	640,007,111	444,458,[illegible]
Maintenance of equipment	1,094,518,932	691,025,[illegible]
Traffic	49,681,885	4,966,[illegible]
Transportation	2,026,929,685	1,529,800,[illegible]
Miscellaneous operations	38,923,969	34,022,522
General	111,703,469	96,418,74[illegible]
Transportation for investment—Cr	*5,623,015*	*7,812,[illegible]*
Total railroad operating expenses	3,956,142,036	2,852,880,196
Railroad Administration expenses	3,528,946	
Net operating revenue	924,299,670	1,188,134,043
Taxes	187,632,077	220,162,949
Uncollectible railway revenue	615,598	702,571
Railway operating income	736,051,995	967,268,523
Equipment rents—Dr	*14,711,257*	*16,078,[illegible]*
Joint facility rent—Dr	*15,276,724*	*21,40[illegible]*
Net operating income	706,064,014	929,786,712
Standard return	900,904,552	600,904,552
Surplus for the year	*194,840,538*	*28,882,[illegible]*

NOTE.—Figures in italics represent credits to expenses or debits to income.

BASIS OF PAYMENTS TO RAILROADS.

The CHAIRMAN. You stated in your general statement, Mr. Hines, that in making payments to the railroads you were making them on the basis not of the total amount due them, but of the amount that was necessary in order to have them meet their fixed charges, including dividends, at the rate they had been paid over the three-year prewar period which Congress took as the basis for arriving at the compensation.

Mr. HINES. Yes. As to interest, it is the interest that had regularly been paid and was being paid at the time Federal control began. As to dividends, generally speaking, it is the dividends paid at the regular rate which was paid during the test-year period of three years. Now, there are occasional instances where there was no regular rate in that time where the Director General has directed a rate to be paid in line with what was paid the latter part of that period. There have been special cases that had to be dealt with, but broadly speaking that is correct.

The CHAIRMAN. Having made advances, you have not undertaken to pay them an amount to cover dividends in any instance in which railroads have not been paying dividends in this three-year period without recouping yourselves for those advances?

Mr. HINES. I do not recall any instance where we have authorized the payment of a dividend where the dividend was not paid in the three-year period.

The CHAIRMAN. Do you recall in round figures how much your rentals exceed the moneys necessary to pay the interest and dividends in line with what you have stated has been the policy?

Mr. HINES. For the calendar year 1919 we figure there will be $150,000,000 surplus rentals over the interest and dividends. Now, it was more than that for 1918, was it not, Mr. Parker?

Mr. PARKER. We estimated about $214,000,000 for 1918.

The CHAIRMAN. Why should it be so much less in 1919?

Mr. PARKER. Our estimate was that the war taxes would be somewhat larger, which the corporations would have to pay out of their income this year, 1919, so they would have correspondingly a less amount to contribute toward their additions and betterments program; in other words, there would be a larger amount of their rentals we would not have the right of deduction against on account of the increased amount of war taxes or the probable increased amount of war taxes.

The CHAIRMAN. And it is your theory that further Government financing is necessary in order to stabilize conditions in this country by permitting the railroads to meet not only their indebtedness in the way of fixed interest charges, but also their dividends?

Mr. HINES. Yes; I am decidedly of the opinion right now it would have a most unfortunate effect on an industrial and financial situation that is already poor if railroad companies had to suspend dividends.

PAYMENT OF DIVIDENDS BY RAILROAD COMPANIES.

The CHAIRMAN. What have you to say as to the distinction, other than size, if any, that might exist between the railroads and any other concerns that may find themselves in lean years unable to pay their dividends?

Mr. HINES. Well, there is a distinction, in the tradition that a railroad dividend has been ordinarily a much more regular thing than a dividend paid by a small private industry, which pays a big dividend one year and does not pay any the next if it does not earn any. It has become a part of the tradition of the investor that a railroad stock which is regarded as reliable pays a dividend with regularity, and the suspension of that would cause a state of disturbance as to financial stability entirely greater than would be the case as to a small industry, just on account of the difference in the way the investing world looks at the two things, and then the much greater magnitude of the railroad dividend would be a distinct reason.

The CHAIRMAN. Is not the latter reason the real reason that should control, if any should, why the Government should undertake to stabilize conditions by guaranteeing returns upon investments?

Mr. HINES. I believe the former reason; that is, the tradition and the way the investing public looks at it, is at least as strong, because they look on a railroad security as a reliable and steady source of income if it is an approved company; and if that is suspended all of a sudden, it will very much more create the feeling that the very foundations of investment are being shaken than if there was a suspension of the dividend paid by some concern which is in the habit of paying or not paying according to the fluctuating state of business. I think that is just as important as the fact that it is so much larger and so much more greatly ramified in its influence.

The CHAIRMAN. You think it is sufficiently important to warrant the Government, at a time when it is having to borrow considerable moneys, in paying as rental an amount sufficient to pay dividends when the very road to which the payment is being made is indebted to the Government for expenditures in the way of betterments?

Mr. HINES. That is my judgment. You see this indebtedness to the Government is an indebtedness for a capital expenditure, and it has always been assumed that it was perfectly proper for a corporation to pay a dividend which was justified by its earnings, even though it was still owing money. Now, a distinct reason, which in my opinion makes it highly important not to deduct against dividends, is that it will create the impression that the Government is not living up to its obligations.

It is true that under the contract there is no final obligation not to deduct against dividends, but there is a statement that it is the policy to avoid making deductions against dividends wherever any other reasonable means of financing is afforded. While we could say that we were still living up to that policy if we simply clamped down on the railroads and said, "We want to pay you what you need for your dividends, and you have got to go outside and borrow this money and pay us off," yet there would be a pretty general feeling that it involved a disregard of a very strong moral obligation on the Government to protect that situation.

The CHAIRMAN. Let us examine that a moment. The Government obligated itself to the extent of $500,000,000 that might be used in the way of betterments. Even assuming that no part of that $500,000,000 should be diminished by virtue of working capital, and the need for that having been an oversight, should be made good, yet what obligation is there in fact upon the Government in taking the railroads over under conditions such as did exist, and with Congress making provision only for financing of betterments to the extent of $500,000,000, for it now to go forward with betterments to a much greater sum in order to enable the roads not to meet their fixed charges simply but to pay dividends to their stockholders?

Mr. HINES. I believe there would be a very general feeling on the part of investors that suspension of dividends was due to a Government policy, because it never had happened in the past under private management, and they would attribute it to a Government policy, notwithstanding the fact they were all made to believe that the taking over of the railroads was for the purpose, in part, of stabilizing these betterments. I believe it would create an impression of going back on a Government policy that underlay the whole plan.

The CHAIRMAN. Of course it will create the impression, but it is one thing to create an impression and it is another thing to have the facts warrant the impression created.

Mr. HINES. Sometimes an impression is so widespread that it is equivalent to the fact, even if it is not in accordance with the fact, and I think that would be one of the cases.

Mr. CANNON. Mr. Hines, I was under the impression that the Government upon taking over the railroads under the law must make good the average dividend that had been paid for a three-year period.

Mr. HINES. I do not understand that the statute puts any definite duty on the Government to do that, but I think there was an implication running through the whole arrangement that was relied on by the investors that there would be no disturbance.

The CHAIRMAN. The question, Mr. Cannon, is not that there should be a reduction of rentals which would eliminate a sum needed to pay dividends, but whether inasmuch as the Government has paid through betterments to the railroads, it should now take credit for those bet-

terments in a reduction of the rentals, at least so far as there may be latitude for doing it without preventing the payment of the fixed charges of the roads?

Mr. HINES. The situation the companies would be in as to past betterments would be that the Government had ordered those betterments; that is, the companies did not seek them and now was taking advantage of betterments the Government itself had ordered to make deductions which would force a suspension of dividends.

The CHAIRMAN. That might be warranted if the betterments ordered had been purely arbitrarily ordered, but presumably it was the duty of the railroads, as a result of the franchise given them, to maintain themselves as going concerns, and as going concerns they required certain betterments, both in the way of rolling stock and of road improvements. Now, the proposal presented here is that the Government by its advances shall finance betterments, make payments for fixed interest charges, and guarantee dividends.

Mr. HINES. I do not think it involves that, Mr. Chairman.

The CHAIRMAN. Is not that the effect of it?

Mr. HINES. No; but it does involve this: Under the contract and under our policy we will, in every case where there is a reasonable opportunity for the company to go outside and finance, tell the company it has to do it, and if it does not do it we will say, "We will exercise our power to deduct against dividends," but we must be perfectly reasonable and not arbitrarily do that, and not do that unless there is clearly a reasonable opportunity for the company, considering the state of its credit, and what available securities it has to offer at the moment, and the state of the market, to go outside and raise the money to pay us off. Now, my idea is that we should exercise very substantial pressure in that direction and that by degrees, as the months go by, we can get the companies to finance a very considerable part of these additions and betterments, but we can not do it fast enough to avoid a need for this money this year.

The CHAIRMAN. If I understand your statement, translated it means that wherever the situation is such that it is not earning a dividend, that then we shall pay it so that it can pay the dividend; but wherever it is sufficiently strong to pay its dividend, then we will require it to do its own financing of betterments, and so on.

Mr. HINES. If a company is not earning its dividends, we would not let it pay a dividend.

The CHAIRMAN. It certainly is not earning its dividends if it can not pay for the betterments that it needs in order to run the road as a going concern; and by "pay" I do not mean pay out of receipts, but I mean pay by financing. If its credit is so bad that it is unable to finance its betterments, what right has it got to be paying dividends to the stockholders?

Mr. HINES. If its credit is so bad permanently that it can not finance its betterments, that is true; but if it is a question of a few months following this war period, I do not think it is true. I think it is very important for the general situation to protect the situation temporarily, but just as rapidly as we can, without upsetting the situation, force these companies to finance all these things.

The CHAIRMAN. In point of fact, the situation you speak of hardly protrays the actual situation, does it? Was not this the situation,

that most of the railroads had gotten themselves, whether through the failure of Congress or governmental agencies to allow them sufficient returns or not, in a situation where they did not have the credit to enable them to make the betterments that they should make and pay dividends on their stock?

Mr. HINES. That was undoubtedly true at the time the Government took the roads over.

The CHAIRMAN. So that now the proposition comes down to the fact—and it may be a justifiable governmental policy—that the Government should finance betterments and pay returns sufficient to meet the fixed charges of the roads plus dividends, where dividends have been paid.

Mr. HINES. I should say they should finance betterments temporarily to a substantial extent—not all of it, because a good deal of it the companies can finance—but they ought not to apply the opposite policy to such an extreme as to force a suspension of dividends at this time where the company is paying a dividend which is fairly justified by its annual income.

The CHAIRMAN. Assuming we go ahead and continue to finance betterments, those made in 1918 and those for this calendar year, when will we reach the point at which the railroads will be either prepared to cease paying dividends or pay back for the betterments or earn enough to pay both the dividends and also the betterments?

Mr. HINES. My judgment is that by the end of this calendar year we will be in position where the companies, with comparatively few exceptions, will be able to finance their additions; and that the companies that can not do it will be companies that are not able to pay any dividends, and that we will not make any additions except those essential for the purpose of safety.

The CHAIRMAN. Is that predicated upon the belief that the increased rates that have been given will remain permanent, and as permanent rates will be sufficient to increase their income?

Mr. HINES. It is predicated on the idea that if Government control lasts longer or if private control is restored, they will have an income sufficient to pay their interest and their established dividends and have a reasonable margin of credit. I believe they would have that under these increased rates. The question whether those rates can be reduced will be dependent largely upon the volume of business and the extent to which readjustments of operation will reduce operating cost notwithstanding the increased rates of wages. I certainly do not make any prophecy that those rates are likely to be reduced in the near future; but on the basis of these rates my judgment is that when this year is passed the companies will be able to finance their additions and betterments; that this appropriation, while it is badly needed now and without it there would be very unfortunate consequences, will put the situation in shape where even if Federal control continues, it will take care of itself after this year.

The CHAIRMAN. Of course, all this proceeds on the assumption that the railroads are entitled to earn a dividend upon the stock which they have issued to the extent that they have been earning such dividends in the immediate past.

Mr. HINES. I would not say that. As I look at it, this is the effect in that respect, that the act of Congress has contemplated

guaranteeing the railroads a certain rental; it has also contemplated that it is permissible for them to pay dividends not exceeding the regular rates during the three-year period. Now I do not believe Congress, in establishing that policy, necessarily committed itself to the view that in all cases that dividend is justifiable; but it was dealing with a temporary policy and for a temporary purpose, and for this temporary purpose it did commit itself to the view that that was a reasonable rental and that that rate of dividend was reasonable.

The CHAIRMAN. Yes; but did it carry with it the corollary that is involved here, that it should both pay such rental and make such advances for betterments as might be necessary?

Mr. HINES. It did not carry with it that corollary to the extent that we must make all additions and betterments. On the other hand, it did not carry with it the corollary that we must make the company make all of them, even though it might mean the suspension of dividends. I think there was a middle ground which for the temporary protection of the situation and for carrying out the policy of Congress we had to adopt, and yet we can work more and more toward that situation where the companies will be required to take these things off our hands; and my policy is to insist on their doing it and to use that as a leverage. We will not pay them enough to pay their dividends unless they use every reasonable expedient to finance these additions and betterments; but in the meantime, while that is being carried out, this appropriation is needed to handle the situation for the time being.

RENTAL CONTRACTS WITH RAILROADS.

The CHAIRMAN. Now, Mr. Hines, you have undertaken to make a standard contract with these railroads in connection with rentals to be paid them.

Mr. HINES. Yes.

The CHAIRMAN. To what extent have you actually signed contracts with the railroads?

Mr. HINES. The number of contracts signed is 34. That is the standard contract. The number about ready to sign is 44. That is 78. Then, there are 23 others which have been drawn and in process of consideration.

The CHAIRMAN. How many corporations are involved?

Mr. HINES. In all the contracts?

The CHAIRMAN. I mean, how many contracts would you have to enter into to cover the field?

Mr. HINES. To cover the railroads of class 1, the railroads that we ordinarily deal with and what these contracts relate to, about 170.

The CHAIRMAN. What do you mean by railroads of class 1?

Mr. HINES. Railroads having operating revenues of $1,000,000 a year or more.

The CHAIRMAN. They represent how much of the total railroads of America?

Mr. HINES. Mr. Parker, what proportion of the mileage?

Mr. PARKER. About 90 per cent.

The CHAIRMAN. You have actually secured a fixed agreement with only a very small percentage of your class 1 railroads?

Mr. HINES. Taking those contracts that are now ready to sign we have gotten practically to the situation of making the final agreement with nearly half of them. We tendered this standard form of contract definitely to all of them last September, and the railroad companies, acting through their executives, have indicated that they would accept it, but in a number of instances the details of the contract have not been worked out. In quite a number of instances, because the companies have not filled in the detail yet that is called for, but I should say, as far as I know, practically every company in the country whose road has actually been taken over and is being operated by the Government is relying on the making of this contract.

The CHAIRMAN. In making your financial statement as to the amount of rentals that you will be required to pay for the year 1918, are you predicating it upon agreements with all the roads in accordance with this standard contract?

Mr. HINES. Yes, sir. We are assuming that those contract will be made and that the standard return which is contemplated by the act of Congress will be paid to all of them.

THURSDAY, FEBRUARY 6, 1919.

The CHAIRMAN. Mr. Hines, when we adjourned yesterday we were discussing the question of contracts which had been made with the various roads. Are you able to tell us just what railroads have now signed the standard contract? I think you stated there were 34 that had signed, and that there were 44 ready to sign as soon as the contract had been put in definite form as to details.

Mr. HINES. I have an analyzed statement of that, which I will hand you and get you to look at in order to see whether that brings it out in the way you would like. That shows the facts up to January 26, and there have been four contracts signed since that date.

The CHAIRMAN. This table purports to show the standard contracts executed and delivered and contracts substantially agreed to but not actually signed and delivered and those in a less determinate state. Suppose we just put this statement in the record.

Mr. HINES. Yes; I will be glad to have that incorporated.

STATEMENT OF THE CONTRACT STATUS AS OF JANUARY 26, 1918.

[* indicates Class I roads.]

I. Standard contracts executed by both parties and delivered:

Company:	Compensation.
*Atchison, Topeka & Santa Fe Ry	$42,810,310
*Buffalo, Rochester & Pittsburgh Ry	3,276,410
*Chicago & North Western Ry	23,364,028
*Chicago, Burlington & Quincy R. R	33,390,079
*Chicago, St. Paul, Minneapolis & Omaha Ry	4,934,789
*Cincinnati Northern R. R	317,628
*Cleveland, Cincinnati, Chicago & St. Louis Ry	9,945,738
*Colorado & Southern Ry	2,833,578
*Fort Worth & Denver City Ry	1,891,386
*Great Northern Ry	28,771,360
*Lake Erie & Western R. R	1,548,541
*Lehigh Valley R. R	11,321,233
*Michigan Central R. R	8,105,727
*Minnesota & International Ry	202,455
*Missouri & North Arkansas R. R	175,000

Company—Continued.	Compensation.
*New York Central R. R.	$58,122,084
*New York, Ontario & Western Ry	2,103,589
*Norfolk & Western Ry	20,640,899
*Northern Pacific Ry	30,130,068
*Pittsburgh & Lake Erie R. R	8,980,219
*Richmond, Fredericksburg & Potomac R. R	1,137,373
Augusta Southern	28,000
Detroit Terminal R. R	186,460
Georgia & Florida	88,000
Indiana Harbor Belt R. R	296,053
Lake Erie & Eastern	127,081
*Pennsylvania R. R	53,603,427
*Atlantic Coast Line	10,185,942
Galveston Wharf	526,069
Total (29 contracts)	359,053,526

Another contract, making 30 in all, has also been executed and delivered for a lump-sum compensation, viz, Gulf, Texas & Western, $29,734.

NOTE.—Since the above list was made up contracts with the Georgia Railroad, compensation $858,662; the Western Railway of Alabama, compensation $288,237; the Charleston & Western Carolina Railroad, compensation $466,921; the Washington Southern Railroad, compensation $468,482, and the Trinity & Brazos Valley Railroad, compensation $100,000, have been signed.

The foregoing list includes 23 Class I roads, and 6 other Class I roads are included in the above contracts as "affiliated companies," making 29 contracts with companies listed as Class I roads already executed by both parties.

II. Contracts executed by the companies, passed by the Railroad Administration staff, and awaiting execution by the director general and additional directors' votes before delivery:

Company:	Compensation.
Atlantic & Western	$12,660

III. Contracts executed by the company, but awaiting action by members of the Railroad Administration staff:

Company:	Compensation.
Gainesville Midland	$22,732
*Delaware, Lackawanna & Western	15,749,476
*Atlanta & West Point	252,995
*Texas & Pacific	4,107,432
Weatherford M. W. & N. W	31,148
Denison & Pacific Suburban	4,702
Total (6)	20,168,485

IV. Contracts passed by the Railroad Administration staff and sent to the companies to execute:

Company:	Compensation.
*Central R. R. of New Jersey	$9,352,301
*Central New England	1,468,123
*Southern Pacific	47,959,988
Total (3)	58,780,412

V. Contracts drawn by the Division of Law of the Railroad Administration and circulated to members of the Railroad Administration staff in printed form:

Company:	Compensation.
Lehigh & Hudson River	$519,371
*El Paso & Southwestern	4,145,102
*Pennsylvania, west	15,154,719
*Maine Central	2,955,696
Fairchild & Northeastern	None.
*Rutland	1,023,883

Company—Continued.	Compensation.
*Central of Georgia	$3,444,158
Br. Eastern District Terminal	306,259
*Grand Rapids & Indiana	929,385
*St. Joseph & Grand Island	373,811
*Los Angeles & Salt Lake	3,414,751
Union Freight	32,009
Abilene & Southern	78,375
Winston-Salem Southbound	260,251
*Alabama & Vicksburg	322,854
Georgia, Florida & Alabama	57,637
Detroit, Bay City & Western	85,967
Port Huron Southern	11,025
Chicago Junction Ry	916,804
Chicago River & Indiana	108,525
*Boston & Maine	9,832,490
Birmingham & Northwestern	34,522
*New England Steamship Co	1,050,753
Total (23)	45,058,347

VI. Contracts drawn by the Division of Law and sent to companies to print. When printed to be circulated among the staff of the Railroad Administration.

Company:	Compensation.
Fort Worth Belt	$55,108
Saline Northern	15,000
Anthony & Northern	9,512
*Nashville, Chattanooga & St. Louis	3,182,089
*Kansas City, Mexico & Orient	150,000
Bennettsville & Cheraw	31,273
Cumberland & Pennsylvania	255,692
Louisiana & Mississippi Railroad Transfer	41,689
Sioux City Terminal	17,352
St. Joseph Belt	44,779
St. Paul Bridge & Terminal	67,509
*Chicago, Milwaukee & St. Paul	28,106,771
Buffalo Creek	409,397
Union Terminal of St. Louis	29,678
*Duluth, South Shore & Atlantic	594,637
*Mineral Range	147,432
Trans-Mississippi Terminal	665,391
*Union Pacific	38,417,011
Durham & Southern	134,221
Total	72,374,510

VII. Contracts drawn by the Division of Law, but awaiting further data or the decision of special claims before being given to the company to print:

Company:	Compensation.
*Atlanta, Birmingham & Atlantic	$358,058
American Refrigerator Transit	542,022
*Ann Arbor	548,440
Durham & Southern	134,221
*Elgin, Joliet & Eastern	2,862,177
*Erie	15,729,068
Escanaba & Lake Superior	58,688
*Louisville & Nashville	17,310,494
Memphis, Dallas & Gulf	28,295
San Antonio, Uvalde & Gulf	55,928
Susquehanna & New York	56,884
*Vicksburg, Shreveport & Pacific	337,947
*Central of Vermont	835,390
*Florida, East Coast	2,842,842
Total	41,660,454

The foregoing shows that 101 contracts, providing for $599,190,646 of compensation have been drawn by the Division of Law; that 30 of these contracts have been exe-

cuted by both parties; that 38 more have been approved by the Division of Law and circulated among members of the Railroad Administration staff for their opinion; 19 more approved by the Law Division and sent to the companies to print; and 14 more drawn, but awaiting determination of special claims, etc. Of the 101 contracts, 51 are with Class I roads; besides which there are probably 20 more Class I roads in the "affiliated companies" which are parties to these contracts.

In the case of contracts not yet executed by the Director General, the causes of delay are being removed by correspondence or otherwise as rapidly as possible.

In addition 13 short line contracts have been actually executed.

The CHAIRMAN. As I recall it, the compensation aggregates something over $900,000,000 and apparently you have actually executed and delivered contracts with 30 companies, the compensation to be paid them aggregating about $360,000,000, or a little over one-third.

Mr. HINES. Yes, sir.

EXCESS COMPENSATION.

(See p. 45.)

The CHAIRMAN. You were permitted under the law, certain facts appearing, to grant compensation in excess of the maximum that might be stated by the Interstate Commerce Commission to be the return earned on the 3-year prewar basis. That was section 6 of the act, was it not?

Mr. HINES. It was paragraph 6 of section 1.

The CHAIRMAN. In point of fact, have you made any such contracts?

Mr. HINES. As a matter of fact we have not yet executed any contracts which include any allowance for compensation in addition to the standard return, with one exception so far, and that is the Missouri & North Arkansas Railroad, where the compensation which we fixed was $161,230 per year, in excess of the standard return.

The CHAIRMAN. To what extent?

Mr. HINES. That was the excess, $161,230.

The CHAIRMAN. Do you recall what the total amount of the standard return was?

Mr. EDDY. About $13,770. The standard return was the difference between $161,230 and $175,000; the total compensation paid was $175,000.

Mr. HINES. That was one of those extreme situations where a company had a very heavy loss for one of the three years, due to conditions that were not regarded as at all typical, and had a very substantial income for another year, and the result was that a standard return really did not signify anything. After analyzing and thrashing the thing out back and forth we fixed on this excess amount as indicative of a fair compensation for the road.

The CHAIRMAN. Has there been any instance in which you have agreed on an amount less than the maximum fixed as the standard return?

Mr. HINES. No; there has been no such instance.

The CHAIRMAN. Was that due to the fact that the Railroad Administration assumed that the maximum should be the minimum, or was it due to the fact that you were unable to get the railroads to accept any less sum?

Mr. HINES. The Railroad Administration proceeded on the view that, broadly speaking, the so-called standard return represented a

standard acceptable to Congress and that it was a wise thing to agree on that standard. There would have been an infinity of disputes about the extent to which that standard ought to be modified. and it seemed an entirely hopeless undertaking to try to reconstruct that, and the Railroad Administration settled down with unanimity, as I understand, to the view that the only practical course was to adopt this as a proper compensation, recognizing that it was not ideal, but that it was practical, and that it was really what everybody regarded as the thing contemplated by Congress, although it was expressed as the maximum.

The CHAIRMAN. You treated it as a minimum as well as a maximum, then?

Mr. HINES. Well, we did not treat it as a minimum in the sense that we felt compelled by law to do it, but we felt impelled by practical conditions to settle on that as the thing to allow.

The CHAIRMAN. To what extent have the railroads sought to obtain an amount in excess of the maximum, and to what extent are those matters pending and unadjusted.

Mr. HINES. Eighty-two companies have made claims for excess compensation. I have a statement here that shows which of those have been denied, which are pending, and which are allowed, and will be very glad to file it. I would like to say that in this statement those that have been allowed are even yet only tentatively allowed, except in the case of the Missouri & North Arkansas, where the contract has been executed.

The CHAIRMAN. Including those which are allowed, tentatively, as you say, and those which are pending and not denied, how much in excess of the standard rate is involved?

Mr. HINES. For those which have been tentatively allowed the excess compensation aggregates $1,316,538.

The CHAIRMAN. Touching those which are claimed and neither denied nor allowed——

Mr. EDDY. We have not that information.

Mr. HINES. But we can give it to you.

The CHAIRMAN. You testified yesterday, I believe, that in stating your accounts you had assumed the rentals on the basis of the standard returns?

Mr. HINES. Yes. Mr. Parker, was that true as to the Missouri & North Arkansas, or did we take the actual compensation and agree on that?

Mr. PARKER. I think that in the case of the Missouri & North Arkansas, we took the actual amount.

Mr. HINES. The statement I made yesterday is subject to the qualifications that as to the Missouri & North Arkansas, with which a contract has already been made, we took the compensation actually allowed, instead of the standard return, but as to all the other companies, the statement is made up on the basis of the standard return.

NOTE.—Mr. Hines subsequently stated that upon inspection of the record it was found that the compensation to the Missouri & North Arkansas had been included in the statements on the basis of actual net operating income, of $13,146; that the statement of compensation did not include the additional compensation allowed.

The CHAIRMAN. In any event, the variance becomes, in a sense, negligible in connection with your general financial statement?

Mr. HINES. Yes. The amounts that have been tentatively allowed represent less than one-sixth of 1 per cent, I should say, of the total compensation. This statement will show the names of the companies, and quite a number of other corporations made claims for compensation, which were denied. But that is shown in the statement which will be filed.

The CHAIRMAN. Broadly speaking, there is outstanding and unadjusted a rather small amount in connection with this added compensation.

Mr. HINES. Yes; that is a relatively negligible feature, as you say.

NOTE.—The director general subsequently filed a statement showing the claims that had been filed for additional compensation, showing separately the claims that had been allowed and the amounts thereof; the claims that had been denied or withdrawn; and the claims still pending, and such statement is as follows:

Summary of special claims for compensation, in addition to the standard return, filed with United States Railroad Administration to Feb. 6, 1919.

Status.	Number of claims.	Amount of claim.	Amount of allowance.
Allowed in part	11	$6,419,875.82	$1,316,538.71
Denied	30	22,593,184.45	
Withdrawn	5	321,635.38	
Pending	36	46,204,136.44	(1)
Total	82	75,538,832.09	

[1] Not yet determined.

Recapitulation of claims allowed to Feb. 6, 1919, in excess of standard return.

Chicago, Milwaukee & St. Paul	$440,082.39
Missouri, Oklahoma & Gulf, approximate	250,000.00
Missouri & North Arkansas	161,230.00
New York, New Haven & Hartford, estimated	150,000.00
Kansas City, Mexico & Orient	140,026.61
International & Great Northern	129,259.18
Cumberland & Pennsylvania	19,885.50
Salina Northern	15,000.00
Van Buren Bridge Co	11,055.03
Trinity & Brazos Valley	(1)
Gulf, Texas & Western	(1)
Total	1,316,538.71

Claims filed to Feb. 6, 1919.

Denied:	
New York Central	$5,339,941.20
Chicago, Rock Island & Pacific	5,193,045.34
St. Louis-San Francisco	4,971,520.73
Great Northern	1,426,320.00
Minneapolis & St. Louis	1,073,680.75
Boston & Maine	809,624.34
Union Pacific	595,079.00
Chicago, Indianapolis & Louisville	470,808.12
Northern Pacific	437,579.28
Chicago, Terre Haute & Southeastern	392,856.95
Louisville & Nashville	341,776.40
San Antonio, Uvalde & Gulf	216,054.32
New Orleans, Great Northern	155,192.21
Norfolk & Western	189,700.09

[1] No compensation.

Denied—Continued.	
Philadelphia & Reading	$128, 059. 50
Waterloo, Cedar Falls & Northern	123, 410. 94
Louisiana & Arkansas	120, 695. 30
Ann Arbor	109, 721. 01
Bangor & Aroostook	107, 170. 24
Hudson & Manhattan	89, 224. 00
Lehigh & New England	57, 520. 45
Kansas City Southern	57, 447. 11
Toledo Terminal Co	47, 000. 57
Port Reading	42, 288. 86
Galveston Wharf Co	32, 479. 41
Vicksburg, Shreveport & Pacific	28, 780. 00
Detroit, Bay City & Western	18, 000. 00
Galveston, Houston & Henderson	9, 458. 00
Catasauqua & Fogelsville	8, 107. 52
Atlantic City R. R	642. 81
Total	22, 593, 184. 45
Withdrawn:	
Elgin, Joliet & Eastern	115, 756. 01
Nashville, Chattanooga & St. Louis	78, 230. 47
Atlantic Coast Line	44, 361. 84
Ocean Steamship Co	43, 818. 97
Central of Georgia	39, 468. 09
Total	321, 635. 38
Pending:	
Missouri, Kansas & Texas system (3 claims)	5, 559, 539. 61
Southern	4, 771, 398. 97
Missouri Pacific	4, 383, 736. 12
Baltimore & Ohio	3, 685, 022. 00
Western Pacific	3, 344, 916. 01
Chicago & Eastern Illinois	3, 244, 463. 00
Wheeling & Lake Erie	2, 828, 314. 63
Wabash	2, 731, 368. 00
Seaboard Air Line	2, 538, 726. 00
Western Maryland	1, 883, 478. 94
Carolina, Clinchfield & Ohio	1, 758, 227. 53
Erie	1, 547, 698. 39
Gulf Coast Lines	1, 487, 722. 75
New York Connecting	1, 469, 758. 80
St. Louis Southwestern	1, 335, 185. 29
Fort Dodge, Des Moines & Southern	154, 164. 39
St. Louis Terminal Association	696, 593. 66
Evansville & Indianapolis	622, 504. 69
Illinois Central & Y. & M. V	524, 736. 84
Norfolk Southern	476, 595. 43
Old Dominion Steamship Co	325, 000. 00
Chicago Great Western	171, 513. 49
Atlanta, Birmingham & Atlantic	134, 823. 16
New York, Susquehanna & Western	98, 461. 02
Minneapolis, St. Paul & Sault Ste. Marie	86, 084. 99
Port Townsend & Puget Sound	74, 863. 06
Ulster & Delaware	71, 722. 32
Farmers Grain & Shipping Co	53, 647. 33
Escanaba & Lake Superior	46, 311. 99
Wrightsville & Tennille	38, 407. 17
Pacific Coast	35, 222. 28
Wildwood & Delaware Bay	15, 562. 75
Louisville & Wadley	5, 760. 60
Piedmont & Northern	2, 605. 23
Total	46, 204, 136. 44

The CHAIRMAN. What organization did you create for the determination and adjustment of this matter of compensation to be paid to the roads?

Mr. HINES. You mean to deal with these excess claims?

The CHAIRMAN. Well, to deal primarily with the contract itself and necessarily with a claim for excess.

COMMITTEE ON ADJUSTMENT OF COMPENSATION—PREPARATION OF CONTRACTS.

Mr. HINES. To deal with the general plan of the contract, Director McAdoo, at the beginning of the Railroad Administration, asked several members of the Interstate Commerce Commission to join with Judge Payne, our general counsel, and Mr. Prouty, Director of the Division of Public Service and Accounting, on a committee to study the form of the contract, and that committee gave several months' study to the subject, meeting a committee of the executives of the railroad corporations. Out of the deliberations of that committee and its discussions with the railroad corporations came a tentative draft of contract, which was very strenuously objected to by the railroad corporations in a great many respects.

Those objections were dealt with by our general counsel and some of them eliminated, the companies withdrawing them, and finally the matter boiled down to a number of objections, on which the corporations stood and insisted on the submission of them to the Director General himself. Along with that there was an organization of security holders which objected strenuously to a number of the provisions which had been put in the contract, as the result of the recommendations of this committee of ours. Finally, Director General McAdoo had a hearing at which a committee of security holders presented arguments, and a committee of railroad executives presented their arguments. He took them all into consideration, and then rendered a decision allowing, in part, some of the things they urged and disallowing others, and then announced the contract which he was willing to make. That represents how the contract was arrived at. Now, as to the question of——

The CHAIRMAN (interposing). Before we come to the question of compensation, as such, could you indicate, briefly, the substantive matters of real moment that were at issue between the railroads and the administration?

Mr. HINES. My mind is a little rusty on that, but I can give you a memorandum which sets them forth in detail and the Director General's decision on each.

The CHAIRMAN. You might place that in the record.

Mr. HINES. Very well. I might say that there were two outstanding objections that were urged very strongly on the part of the security holders. It was insisted that the contract made them waive any claims they might have against the Government for diversion of business at the end of Federal control. They said their business might be lost when Federal control ended, and that the compensation which was paid them would not be a compensation for all losses, and they wanted to have the contract left in such form that at the end of Federal control, there could be an appraisal of that additional element of damage, and they could be allowed whatever it amounted to.

However, the director general took the position that they were entitled only to a single compensation and for that single compensation they must give a complete acquittance; that if they did not make a contract and went into the Court of Claims, whatever amount it fixed as compensation, it would fix as compensation for all the use that the Government made of the property and all the damage the Government did to the property, and insisted that he would not make a contract that did not give the Government a correspondingly complete acquittance. So that provision was maintained in the contract.

The other outstanding point that comes to my mind at present is that the railroad companies objected very strenuously to any deduction from their compensation which would interfere in any way with dividends as well as with interest, and urged that the Government must commit itself absolutely that under no circumstances would it make any deduction which would interfere with the payment of regular dividends. The director general declined to do that, indicating, however, that a provision would be allowed that when they availed themselves of a reasonable opportunity to finance, so as to repay the Government for its additions and betterments, that then the deduction would not be insisted on as against dividends, except in emergency cases, but he denied their contention, which they urged with a great deal of insistence, that there ought to be an absolute undertaking that there would be no deduction which would interfere with dividends. But I will put in the record a memorandum which will show all of those points and how they were disposed of.

(The memorandum referred to will be found on page 189.)

The CHAIRMAN. Who constituted, if you recall, this board that represented the administration?

Mr. HINES. Mr. Prouty, could you give the names of the committee that worked on the contract?

Mr. PROUTY. The commissioners.

Mr. HINES. The members of the commission and the members of our organization.

Mr. PROUTY. I think Judge Payne and I represented our organization; Mr. Clark, Mr. Anderson, Mr. Meyer, and Mr. Hall represented the commission.

Mr. HINES. And, as I recall, Commissioner Clark was chairman of the committee.

Mr. PROUTY. Commissioner Clark was the chairman.

The CHAIRMAN. You had another committee, presumably, after establishing the form of your standard contract, to consider the question of the compensation to be named in it.

Mr. HINES. As to the question whether the standard return should be allowed in the contracts generally, I would say—And Mr. Prouty, I would like to have you supplement what I say, or correct it in any way you think proper, because you are more closely in touch with this—that as a result of the discussions which took place in the formation of the contract and the discussions which took place among the members of the railroad staff, there was reached a consensus of opinion that the only practical way to deal with it was to allow the standard return, and, therefore, no committee was constituted especially to make a study of all these roads with reference to that subject; but it was based on the general knowledge which the members of our staff had of the situation and of the problems involved.

Mr. PROUTY. I think that is correct, except that it was rather assumed that there might be, in the case of some of the smaller roads, an anomalous case where we would not pay the standard return; whether there has ever been such a case I am not certain, but I think there have been one or two. But I believe we did assume that it was the intent of Congress that unless there was something to indicate that it would not be just and appropriate to make us pay it, that we ought to pay the standard return.

COMMITTEE ON EXCESS COMPENSATION.

(See p. 39.)

Mr. HINES. When we came to the matter of these claims for excess compensation a committee was appointed to deal with that, a committee which contained representatives of our division of law, our division of operation, and our division of accounting. They duty of that committee was to analyze the claims that were presented, to reach a conclusion and make a recommendation as to whether the claims ought to be allowed or not. Those claims, when they were favorably acted on by that committee, were then submitted to a subcommittee of our staff. That committee consisted of Mr. Prouty, Mr. Williams, director of the division of finance; Judge Lovett, director of the division of capital expenditures; and Judge Payne, and I frequently sat with that committee when I had time while I was assistant director general. That committee then again considered any claims that had been favorably acted on by the committee on compensation. Those claims which had been denied by the committee on compensation were not ordinarily reconsidered by this committee of the staff. Then, in some cases there was a still further consideration by the entire staff as to whether anything should be allowed, and the result of all that work is that out of the 82 claims presented there have been tentatively allowed 11 claims, showing that they were very carefully and repeatedly scrutinized, those that seemed to be entitled to favorable consideration at all.

INVENTORY OF PROPERTY OF RAILROADS.

The CHAIRMAN. These contracts undertook to deal, in considerable detail, with various matters of finance and adjustment and they also carry, do they not, a schedule of property?

Mr. HINES. A very general description of the property is embodied but it is not scheduled in great detail.

The CHAIRMAN. What machinery has been created, if any, to inform you what you took over and, therefore, what you stand committed to account for upon a return of the roads?

Mr. HINES. Immediately upon the beginning of our administration we took up the question of an inventory and instructions were given that an inventory be made. Mr. Prouty, was that to be made as of December 31?

Mr. PROUTY. Yes.

Mr. HINES. Will you state more in detail how that was done, because that was in your division.

Mr. PROUTY. No inventory of the property was ever made by the director general. The Bureau of Valuation, under the valuation act, makes an inventory of the property of every carrier as of a certain date and also keeps track of all changes in that property, so that the Bureau of Valuation is able to state, as of a certain date, exactly what property the carrier had on hand. Mr. McAdoo thought we should depend on that inventory for a detailed statement of the property taken over, so there is in the contract, therefore, a simple and general description, and we rely on the detailed inventory of the Bureau of Valuation if any question ever arises.

The CHAIRMAN. Do the railroads stand committed to your inventory?

Mr. PROUTY. It does not make any difference whether they are or not; it is right, and we can show it is right, and that ends it as far as that is concerned.

The CHAIRMAN. It may be as to the fact but not as to a lawsuit.

Mr. PROUTY. Well, the inventory is served on them and they are required to make objections to it, and if it is not right they are going to object to it. That does not include materials and supplies which the carrier had on hand on December 31, and the director general directed that an inventory should be made, as of December 31, of the materials and supplies, one copy to be retained by the carrier and one copy to be filed with the Division of Accounting, and that has been done.

Mr. SISSON. Were the railroads themselves called upon to furnish, as nearly as they could, a list of their properties?

Mr. PROUTY. The railroads were required, under the order of the Interstate Commerce Commission, to file with the Bureau of Valuation a schedule of their equipment of all kinds, together with the original cost of that equipment and a great many other facts connected with it. That schedule is verified by the Interstate Commerce Commission; we go into their books and as a result we produce a very perfect inventory of the properties.

Mr. GILLETT. Based upon the railroads' own statements?

Mr. PROUTY. Yes, as verified by our people. There is never any dispute between the railroads and the Interstate Commerce Commission about the inventories of equipment. The Santa Fe people admitted, when we got through with our inventory of their equipment, that they knew more about their equipment from our schedule than they had ever known before, and that is a road that keeps its records in admirable shape.

Mr. SISSON. Is an inspection made on the part of the Government officials of the property itself at any time?

Mr. PROUTY. We inspect, or intend to inspect, 10 per cent of the equipment.

Mr. SISSON. And do you check it up with the returns?

Mr. PROUTY. That is, however, for the purpose of determining the condition of the equipment, how much it has depreciated, etc. We check up from the records of the carriers the existence of the equipment. It passes from one carrier to another, and there is a record of it kept, and we check up those records.

Mr. GILLETT. Do you average the other 90 per cent by the 10 per cent that you inspect?

Mr. PROUTY. Yes, sir.

The CHAIRMAN. You will place in the record at this point your standard form of contract.

(The contract referred to is as follows:)

[Form B, Jan. 25, 1919.—For companies with subsidiaries.]

AGREEMENT BETWEEN THE DIRECTOR GENERAL OF RAILROADS AND ——— Co AND OTHER CORPORATIONS, ———, 1919.

PREAMBLE AND RECITALS.

This agreement, made this ...... day of ......, 1919, between Walker D. Hines, Director General of Railroads, hereinafter called the Director General, acting on behalf of the United States and the President, under the powers conferred by the proclamations of the President hereinafter referred to, party of the first part, and the ......, parties of the second part:

Witnesseth that: (a) Whereas by a proclamation dated December 26, 1917, the President, acting under the powers conferred on him by the Constitution and laws of the United States, by the joint resolutions of the Senate and House of Representatives bearing date April 6 and December 7, 1917, respectively, and particularly under the powers conferred by section 1 of the act of Congress approved August 29, 1916, entitled "An act making appropriations for the support of the Army for the fiscal year ending June 30, 1917, and for other purposes," took possession and assumed control at 12 o'clock noon on December 28, 1917, of certain railroads and systems of transportation, including the railroads and transportation systems of the companies and the appurtenances thereof, and directed that the possession, control, operation, and utilization of the transportation systems thus taken should be exercised by and through William G. McAdoo, appointed Director General of Railroads; and

(b) Whereas the Congress of the United States, by an act approved March 21, 1918, hereinafter called the Federal-control act, has authorized the President to enter into agreements with the companies owning the railroads and systems thus taken over for the maintenance and upkeep of the same during the period of Federal control, for the determination of the rights and obligations of the parties to the agreement arising from or out of Federal control, including the compensation to be received or guaranteed, and for other purposes, as in said act more fully set out, and authorized the President to exercise any of the powers by said act or theretofore granted him with relation to Federal control through such agencies as he might determine: and

(c) Whereas by a proclamation dated March 29, 1918, the President, acting under the Federal-control act and all other powers him thereto enabling, authorized the Director General either personally or through such divisions, agencies, or persons as he may appoint, and in his own name or in the name of such divisions, agencies, or persons, or in the name of the President, to agree with the carriers, or any of them, or with any other person in interest, upon the amount of compensation to be paid pursuant to law, and to sign, seal, and deliver in his own name or in the name of the President or in the name of the United States such agreements as may be necessary and expedient with the several carriers or other persons in interest respecting compensation, or any other matter concerning which it may be necessary or expedient to deal, and to make any and all contracts, agreements, or obligations necessary or expedient and to issue any and all orders which may in any way be found necessary and expedient in connection with the Federal control of systems of transportation, railroads, and inland waterways as fully in all respects as the President is authorized to do, and generally to do and perform all and singular the acts and things and to exercise all and singular the powers and duties which in and by the said act, or any other act in relation to the subject thereof, the President is authorized to do and perform; and

(d) Whereas the said William G. McAdoo has resigned as Director General of Railroads and by a proclamation dated January 10, 1919, the President appointed Walker D. Hines Director General of Railroads and authorized him, either personally or through such divisions, agencies, or persons as he may appoint, in his own name or in the name of such divisions, agencies, or persons, or in the name of the President, to agree with the carriers or any of them or with any other person in interest, upon the amount of compensation to be paid pursuant to law, and to sign, seal, and deliver in his own name or in the name of the President, or in the name of the United States of America such agreements as may be necessary and expedient with the carriers or other persons in interest respecting compensation or any other matter concerning which it may be necessary or expedient to deal, and to make any and all contracts, agreements, or obligations necessary or expedient, and to issue any and all orders

which may in any way be found necessary and expedient in connection with the Federal control of the systems of transportation taken over by the proclamation of December 26, 1917, as fully in all respects as the President is authorized to do, and generally to do and perform all and singular all the acts and things and to exercise all and singular the powers and duties in relation to such Federal control that the President is by law empowered to do and perform; and

(c) Whereas the Interstate Commerce Commission has certified to the President the amount of the average annual railway operating incomes of the said companies, computed in the manner provided in section 1 of the Federal-control act, and the aggregate of which amounts is ...... dollars, and ...... cents ($......), subject to such changes and corrections as the commission may hereafter determine and certify to be requisite in order that the accounts and reports of the companies used by the commission as the basis of computing said average annual railway operating incomes may be brought into conformity with the accounting rules or regulations of the commission in force at the time of such accounting, or in order to correct computations based on such accounts or reports.

Now, therefore, the parties hereto, of the first and second parts, respectively, each in consideration of the agreements of the other herein contained, do hereby covenant and agree to and with each as follows:

SECTION 1.—PRIVITY, ALTERATIONS, DEFINITIONS, ETC.

SEC. 1. (a) This agreement shall be binding upon the United States, the Director General and his successors, and upon the companies, and their respective successors and assigns.

Wherever in this agreement the word "company" is used it shall be understood as meaning the ——— Co.; the words "affiliated companies" shall be understood as meaning the ——— other corporations, parties to this agreement; and the word "companies" shall be understood as meaning the ——— corporations, parties to this agreement.

The rights and obligations of the companies in this agreement contained are several, not joint. The company owns all the stock, except directors' qualifying shares of all the affiliated companies.

This agreement shall not be construed as creating any right, claim, privilege, or benefit against any party hereto in favor of any State or any subdivision thereof, or of any individual or corporation other than the parties hereto.

(b) The provisions of this agreement may be altered, amended, or added to by and only by mutual consent signified by instruments in writing signed by the Director General and by some officer of the company thereto duly authorized by the board of directors of the company.

(c) Wherever in this agreement the word "commission" is used it shall be understood as meaning the Interstate Commerce Commission, acting by divisions or otherwise as authorized by law; but any party shall have the right to have the decision of any division reviewed by the commission sitting as a whole.

(d) Wherever in this agreement the words "Federal control" are used to indicate a period of time they shall be understood as meaning the period from 12 o'clock midnight of December 31, 1917, to and including the day and hour on which said control shall cease.

(e) Wherever in this agreement the words "test period" are used they shall be understood as meaning the period between July 1, 1914, and June 30, 1917, both inclusive.

(f) Wherever in this agreement the words "standard return" are used they shall be understood as meaning average annual railway operating income, computed in the manner provided in section 1 of the Federal control act, and ascertained and certified by the commission.

(g) Wherever in this agreement the words "Director General" are used they shall be understood as designating the person who has been or may from time to time be appointed by the President to exercise the powers conferred on him by law with relation to Federal control, or such agents or agencies as the Director General may from time to time appoint for the purpose; and wherever by this agreement any notice is to be given by the Director General, the same may be given in his name by any subordinate thereto duly authorized.

(h) Wherever the property of any of the companies is referred to in this agreement it shall be understood as including all the property of that company described in paragraph (a) of section 2 hereof, whether owned by or leased to it, and, where the context permits, all additions or betterments thereto or extensions thereof made during Federal control; and as to all such leased property the companies shall have

the benefit of and be subject to all the obligations and provisions of this agreement and shall be subject to all duties imposed by law in respect of such leased property.

(i) The descriptive words at the heads of the several sections of this agreement and the table of contents are inserted for convenience merely, and are not to be used in the construction of the agreement.

SECTION 2.—PROPERTY TAKEN OVER.

SEC. 2. The railroads and systems of transportation of the company and of its said affiliated companies of which the President has taken over possession, use, control, and operation shall be considered as including:

(a) The following roads and properties ——— together with all branches and tracks, trackage, bridge, and terminal rights, and lines of railroad owned by or leased to and operated by any of the companies as a part of their systems of transportation, and all other property of the companies, with the appurtenances thereof, whether included in the foregoing list or not, the revenues of which were used, or which, if the property had been then owned by or leased to any of the companies and had then been revenue bearing, would have been used, in computing its standard return.

Each of the companies reserves to itself the benefit of all leases (and of all rents and revenues accruing therefrom) of parts of its right of way, station grounds, and other property, the revenues from which under the accounting rules of the commission in force during the test period were properly creditable to "miscellaneous rent income" or "miscellaneous income." Each of the companies grants to the Director General all its rights to terminate leases of any part of its right of way, yards, or station grounds, and to occupy and use the premises of any such lessee when, in his judgment, the same is required for operating purposes. Each of the companies shall have for its own benefit the right to lease for industrial sites or other purposes such portion of its right of way, yards, or station grounds, or structures thereon as are not required by the Director General for operating purposes, and to receive and enjoy the rentals therefrom, subject to the right of the Director General to cancel any such lease and to occupy the premises or structures whenever, in his judgment, the same are necessary for operating purposes. All expenses connected with any such property heretofore or hereafter leased or otherwise occupied, as in this paragraph provided, including taxes thereon which during the test period were not charged to railway tax accruals, shall be paid by the companies while receiving the revenues therefrom.

(b) All materials and supplies on hand at midnight December 31, 1917.

(c) All balances in the account or accounts representing the total of "Net balance receivable from agents and conductors" as of midnight December 31, 1917.

SECTION 3.—ACCEPTANCE.

SEC. 3. (a) The companies accept all the terms and conditions of the Federal-control act and any regulation or order made by or through the President under authority of said act or of that portion of the act approved August 29, 1916, referred to in paragraph (a) of the preamble of this agreement which authorizes the President in time of war to take possession, assume control, and utilize systems of transportation; and they further and expressly accept the covenants and obligations of the Director General in this agreement set out and the rights arising thereunder in full adjustment, settlement, satisfaction, and discharge of any and all claims and rights, at law or in equity, which they or any of them now have or hereafter can have, otherwise than under this agreement, against the United States, the President, the Director General, or any agent or agency thereof, for compensation under the Constitution and laws of the United States for the taking possession of their property, and for the use, control, and operation thereof during Federal control, and for any and all loss and damage to their business or traffic by reason of the diversion thereof or otherwise which has been or may be caused by said taking or by said possession, use, control, and operation.

No claim is made by the companies for compensation for the period between noon of December 28 and midnight of December 31, 1917; and the revenues of said period shall belong to the companies, and the expenses thereof shall be paid by them, allocated in both cases as provided in paragraph (b) of section 4 hereof.

(b) The companies, on their own initiative or upon the request of the Director General, shall take all appropriate and necessary corporate action to carry out the obligations assumed by them in this agreement or lawfully imposed upon them by or pursuant to the proclamation of December 26, 1917, or by the Federal-control act.

(c) The Federal-control act being in section 16 thereof expressly declared to be emergency legislation enacted to meet conditions growing out of war, nothing in this

agreement shall be construed as expressing or prejudicing the future policy of the Federal Government concerning the ownership, control, or regulation of the companies, or the method or basis of the capitalization thereof, and the recitals or provisions of this agreement shall not be used, as evidence or otherwise, by or against any party hereto in any pending or future proceeding which involves the acquisition or valuation of the property of any of the companies or any part thereof: but nothing in this paragraph shall be taken or construed as affecting the settlement and discharge contained in paragraph (a) of this section, nor as limiting or qualifying any of the provisions of said paragraph for the purposes thereof, nor as limiting the use of this agreement as evidence in any proceeding under this agreement or under the Federal-control act.

SECTION 4.—OPERATION AND ACCOUNTING DURING FEDERAL CONTROL.

SEC. 4. (a) All amounts received by the director general under paragraph (c) of section 2 hereof and all other amounts, whether received from the companies in cash or collected or realized upon by him from current operating assets belonging to the companies or arising from railway operations prior to midnight of December 31, 1917, shall be credited by him to the companies; and the director general shall, to the extent of the cash so received or realized, pay and charge to the companies all expenses arising out of railway operations prior to January 1, 1918, including reparation claims, and, unless objected to by the company, may pay and charge to the companies any of such expenses, including reparation claims, in excess of the cash so received or realized. Balances of the above accounts shall be struck quarterly on the last days of March, June, September, and December of each year, and the cash balance found on such adjustments to be due either party shall be then payable and, if not paid, shall bear interest at the rate of 6 per cent per annum, unless the parties shall agree upon a different rate; except that the rate of interest on any portion of a balance found due to the companies which is derived from cash in bank to the credit of the companies on interest shall be adjusted in each case independently of this contract as the parties may agree.

(b) Railway operating expenses, reparation and other claims, hire of equipment, and joint facility rents shall be allocated with reference to the time when incurred as between the period prior and subsequent to midnight of December 31, 1917, and as between the period of Federal control and the period subsequent thereto. Railway operating revenues shall be allocated as between the period prior and subsequent to midnight of December 31, 1917, in accordance with the established accrual practices of the companies; except that where prior to midnight of December 31, 1917, the companies' part of a service on through business had been completed or carload lots on their own lines had reached destination, the revenue of the companies for such service shall be allocated to them; but as to classes of traffic where in the opinion of the director general such allocation will involve undue delay or undue absorption of accounting labor, such revenue shall be allocated in accordance with the established accrual practices of the companies. Like methods of accruing and allocating such revenues shall be made at the end of Federal control.

(c) All expenditures made by the director general during Federal control for additions and betterments, exclusive of equipment, or for extensions begun prior to January 1, 1918, shall be charged to the companies, and if the completion of any such addition, betterment, or extension is approved or ordered by the director general, the company shall be entitled under the provisions of paragraph (d) of section 7 hereof to interest on the cost thereof from the completion of the work; but no interest (except to the extent that the same may be allowed and included in the compensation provided for in paragraph (a) of section 7 hereof) shall be due the company upon any such expenditure for work done prior to January 1, 1918. Payments for all equipment ordered or under construction by any of the companies prior to January 1, 1918, but delivered on or after that date, shall also be considered as expenditures made by order or approval of the director general under paragraph (d) of section 7 hereof. Interest during construction payable under this paragraph, and also interest during construction on the cost of any additions, betterments, and road extensions made by the companies or at their expense to the companies' property during Federal control, shall be included in the cost of the work.

(d) Cash receipts or disbursements and other items arising out of transactions which do not enter into or form a part of those used in determining the companies' standard return shall not be received or paid by the director general unless such transactions are negotiated or conducted by his order for account of the companies and with the consent of the company. When moneys are so received or paid by the director general in connection with such corporate transactions, they shall be credited or charged

to the companies. There shall be an accounting of the amounts due by or to any of the parties under this paragraph at the end of each quarter year of Federal control, and the amount so found due shall be then payable and if not paid shall bear interest as provided in paragraph (*a*) of this section.

(*e*) All sums paid by the director general to maintain pension funds or pension obligations or practices, and all contributions to Young Men's Christian Associations of employees, employees' savings funds, relief funds or associations, reading rooms, or health, accident, or death benefits for employees, shall be treated as a part of railway operating expenses during Federal control.

(*f*) All salaries and expenditures incurred by the companies during Federal control for purposes which relate to the existence and maintenance of the corporations, or to the properties of the companies not taken over by the President, or to negotiations, contracts, valuations, or any business controversy with the Government or any branch thereof, and which are not specially authorized by the director general, shall be borne by the companies; except that the expenses of valuation now being made by the commission to the extent that they are, in the opinion of the director general, necessary to comply with the valuation orders and other requirements of the commission and to the cooperation of the companies in the making of such valuation, shall be paid by the director general as a part of railway operating expenses. If the company is dissatisfied with the ruling of the director general, it may appeal to the commission, whose decision shall be final.

(*g*) The director general shall furnish for additions, betterments, and road extensions to the companies' property approved or ordered by him any of the materials and supplies taken over under paragraph (*b*) of section 2 hereof, or purchased by him and held for use in connection with the companies' property, in so far as, in his judgment, he can do so with due regard to his own requirements. Materials and supplies so furnished shall be charged to the companies at cost.

(*h*) The director general shall at his option be substituted for the period of Federal control in the place of the companies in respect of the benefits and obligations of contracts relating to operation in force January 1, 1918 (including contracts made by subsidiaries for the use and benefit of the companies and the right to abrogate or change and make new contracts with express companies for the period of Federal control), except as to contracts between the companies and subsidiary companies which shall be considered and treated as arrangements or practices: and the director general shall in like manner at his option be substituted for such period in respect of the benefits and obligations of arrangements and practices in force during the test period in regard to fuel, materials, and supplies for the operation of the property described in paragraph (*a*) of section 2 hereof and of any additions, betterments, and road extensions thereto, obtained from any mine, oil field, or other source of supply owned or controlled by the companies, it being understood that under such arrangements or practices, if availed of by the director general, he shall, to the extent necessary to offset any increase in the standard return growing out of the furnishing by the companies or their subsidiaries, during the test period, of fuel, materials, and supplies under an arrangement or practice at less than the then cost or the then market value thereof for railroad purposes, be charged for such fuel, materials, and supplies a price expressed in dollars or cents per unit below or above the then cost or the then market value thereof for railroad purposes (as the practice of the companies may have been) in the same amount that the prices charged the companies during the test period were below or above the then cost or the then market value thereof for railroad purposes; and at the request of the director general or the companies the prices for fuel or materials supplied between December 31, 1917, and the execution of this contract shall be adjusted on the foregoing basis: *Provided, however*, That a source of supply which the companies had acquired to safeguard their own operations shall not be depleted or reduced for use on other transportation systems, except in cases of emergency to be determined by the director general, in which event the quantity so used on other transportation systems shall be accounted for to the companies at the fair value thereof: *And provided further*, That materials and supplies secured under contracts which the companies had made for their own operations shall, so far as practicable, be used on the companies' property, and that, if used on any other transportation system, materials and supplies of like character shall be furnished by the director general for use in making such additions, betterments, and road extensions as shall be chargeable to the companies, and shall be charged at cost under such contracts.

(*i*) The director general shall pay, or save the companies harmless from, all expenses incident to or growing out of the possession, operation, and use of the property taken over during Federal control, except the expenses which under this agreement are to be borne by the companies. He shall also pay or save the companies harmless from all rents called in the monthly reports to the commission equipment rents or

joint-facility rents, and all judgments or decrees that may be recovered or issued against, and all fines and penalties that may be imposed upon, the companies by reason of any cause of action arising out of Federal control, or of anything done or omitted in the possession, operation, use, or control of the companies' property during Federal control, except judgments or decrees founded on obligations of the companies to the director general or the United States.

(*j*) Except as otherwise provided in this agreement the director general shall save the companies harmless from any and all liability, loss, or expense resulting from or incident to any claim made against the companies growing out of anything done or omitted during Federal control in connection with, or incident to, operation or existing contracts relating to operation; and shall do and perform, so far as is requisite under Federal control for the protection of the companies, all and singular the things, of which he may have notice, necessary and appropriate to prevent, because of Federal control or of anything done or omitted thereunder, the forfeiture or loss by the companies of any of their property rights, ordinance rights, or franchises, or of their trackage lease, terminal, or other contracts involving a facility of operation; but nothing herein contained shall be construed to require the director general to make any capital expenditure necessary to preserve a franchise or ordinance right not heretofore availed of by the companies. The director general shall also save the companies harmless from any and all claims for breach of covenant heretofore entered into by the companies or by any predecessor in title or interest in any mortgage or other instrument in respect to insurance against losses by fire.

Nothing in this or in the preceding paragraph shall be construed to be an assumption by the director general of, or to make him liable on, any obligation of the companies to pay a debt secured by a mortgage or any rent under a lease, except rents which during the test period were called in the monthly reports to the Commission equipment rents and joint-facility rents and rents which under the accounting rules of the Commission in force during the test period were classified as operating expenses.

The companies shall, during Federal control, pay the rents of any property, held by them under lease or contract, described in paragraph (*a*) of section 2 hereof, except the rents which during the test period were, under the rules of the Commission, classified as equipment rents or joint-facility rents, and rents which were classified as operating expenses; which excepted rents shall be paid by the director general. If the lease of, or right to use, any property described in paragraph (*a*) of said section 2 expires during Federal control, the companies shall, if possible, and if requested by the director general, renew the same; the rental, however, of property in the excepted classes above mentioned shall be paid by the director general. The companies shall pay the same amount of rent as was payable at the beginning of Federal control for other property, the lease of or right to use which is renewed at the request of the director general, but any increases in the rental of such other property shall be paid by the director general.

(*k*) In carrying out the provisions of paragraphs (*a*), (*b*), (*c*), and (*d*) of this section and the provisions of section 6 hereof the director general shall not settle any claim by or against the companies against the objection in writing of the president or of any other duly authorized officer of the company. The conduct of all litigation before any court or commission arising out of such disputed claims, or out of operation prior to Federal control, shall be in charge of the director general's legal force and the expense thereof shall be paid by the director general; but the companies may, at their own expense employ special counsel in connection with any such litigation.

(*l*) Nothing in this agreement shall be construed as inconsistent with the provision in section 10 of the Federal control act that no process, mesne or final, shall be levied against any property under Federal control, nor as a waiver by the United States of any claim that might otherwise be made by it that the rights of any State or subdivision thereof or of any individual or corporation have been abrogated or suspended by the taking over of the companies' property or by Federal control.

(*m*) The companies shall have the right at all reasonable times to inspect the books and accounts kept by the director general relating to their property, or to the operation thereof, and the director general shall during Federal control furnish the companies with copies of the operating reports relating to their property, and as soon as practicable after the end of each fiscal year shall furnish to the companies a complete list of their equipment as of the end of such fiscal year.

SECTION 5.—UPKEEP.

SEC. 5. (*a*) During the period of Federal control the director general shall, annually, as nearly as practicable, expend and charge to railway operating expenses, either in payments for labor and material or by payments into funds, such sums for the main-

tenance, repair, renewal, retirement, and depreciation of the property described in paragraph (*a*) of section 2 hereof as may be requisite in order that such property may be returned to the companies at the end of Federal control in substantially as good repair and in substantially as complete equipment as it was on January 1, 1918: *Provided, however*, That the annual expenditure and charges for such purposes during the period of Federal control on such property and the fair distribution thereof over the same, or the payment into funds, of an amount equal in the aggregate (subject to the adjustments provided in paragraph (*c*) and to the provisions of paragraph (*c*) of this section) to the average annual expenditure and charges for such purposes included under the accounting rules of the commission in railway operating expenses during the test period, less the cost of fire insurance included therein, shall be taken as a full compliance with the foregoing covenant.

(*b*) The director general may expend such sums, if any, in addition to those expended and charged under paragraph (*a*) of this section (subject to the adjustments provided in paragraph (*c*) of this section) as may be requisite for the safe operation of the property described in paragraph (*a*) of section 2 hereof, assuming a use similar to the use during the test period and not substantially enhancing the cost of maintenance over the normal standard of maintenance of railroads of like character and business during said period; and the amount, if any, of such excess expenditures during Federal control shall be made good by the companies as provided in paragraph (*b*) of section 7 hereof.

(*c*) In comparing the amounts expended and charged under the provisions of paragraphs (*a*) and (*b*) of this section with the amounts expended and charged during the test period, due allowance shall be made for any difference that may exist between the cost of labor and materials and between the amount of property taken over and the average for the test period, and, as to paragraph (*a*), for any difference in use between that of the test period and during Federal control which in the opinion of the commission is substantial enough to be considered, so that the result shall be, as nearly as practicable, the same relative amount, character, and durability of physical reparation.

(*d*) At the request of the director general or the company there shall be an accounting of the amounts due by or to any of the parties under paragraphs (*a*) and (*b*) of this section at the end of each year of Federal control and at the end of Federal control.

(*e*) If during Federal control any of the property described in paragraph (*a*) of section 2 hereof or any replacement thereof or addition thereto or betterment or extension thereof is destroyed or damaged otherwise than by fire or public enemies, and is not restored or replaced by the director general, he shall reimburse the companies the value of the property destroyed or the amount of the damage at the time of the loss, and the cost of restoration or replacement, or said value or damage, as the case may be, shall be charged to annual railway operating expenses; it being understood that extraordinary losses caused by floods, explosions, train wrecks or accident are included in the matters covered by this paragraph, while ordinary losses due to such causes are included in the matters covered by paragraph (*a*) of this section: *Provided, however*, That if the commission on application of the director general or the company and after giving due consideration to the practice of the companies during the test period in respect to such matters and to any other pertinent facts and circumstances, determines that it is just and reasonable that the said cost or value shall be apportioned or extended over a period of more than one year, this shall be done, and so much of said cost or value as may be approtioned by the commission over the period subsequent to Federal control shall be charged to the companies in the final accounting at the end of Federal control and shall be paid by them.

If, during Federal control, any of the property described in paragraph (*a*) of section 2 hereof or any replacement thereof or addition thereto or betterment or extension thereof is destroyed or damaged by fire, and is not restored or replaced by the director general, he shall reimburse the companies the value of the property destroyed or the amount of the damage at the time of the fire; and the cost of restoration or replacement or said value or damage, as the case may be, shall be charged to annual railway operating expenses, but the same shall not be considered a charge to such expenses for the purposes specified in paragraph (*a*) of this section.

In case of any such loss or damage by fire, the director general shall, if given written notice of the requirements of any mortgages, equipment lease, or trust on the property so destroyed or damaged, make such restoration or replacement, or pay such value or damage, in such way as to meet the requirements of such mortgage, equipment lease, or trust in the same manner as would have been proper in applying the proceeds of insurance on such property if it had been insured by the companies against loss or damage by fire in accordance with the terms of such instruments of lien; and a compliance with the written request of the company in respect thereof shall be a full acquittance of any obligation of the director general in the premises.

The foregoing parts of this paragraph are subject to the proviso that in case of loss or damage any additions and betterments made in connection with or as a part of the restoration or replacement of property damaged or destroyed and chargeable under the accounting rules of the commission in force December 31, 1917, to investment in road and equipment, shall be charged to and paid by the companies.

The director general shall not be liable to the companies for any loss or damage due to the acts of public enemies.

(*f*) If any additions, betterments, or road extensions are made to the property taken over or any equipment is added at the expense of the companies and with the approval or by order of the director general during Federal control, he shall expend and charge to railway operating expenses such sums either in payments for labor and materials or by payments into funds, as may be requisite for the proper maintenance, repair, renewal, retirement, and depreciation of such property until the end of Federal control.

(*g*) The companies shall have the right to inspect their property at all reasonable times during Federal control, and the director general shall provide reasonable facilities for such inspection.

(*h*) If any question shall arise, either during or at the end of Federal control, as to whether the covenants or provisions in this section contained are being or have been observed, the matter in dispute shall, on the application of the director general or the company, be referred to the commission, which, after hearing, shall make such findings and order as justice and right may require, which shall be final as to the questions submitted and shall be binding on and observed by the parties hereto, except that the director general or the company may take any question of law to the courts, if he or it so desires.

SECTION 6.—TAXES.

SEC. 6. (*a*) All taxes assessed under Federal or any other governmental authority for the period prior to January 1, 1918, including a proportionate part of any such tax assessed after December 31, 1917, for a period which includes any part of 1917 or preceding years and unpaid on that date, all taxes commonly called war taxes which have been or may be assessed against the companies under the act of Congress entitled "An act to provide revenue to defray war expenses, and for other purposes," approved October 3, 1917, or under any act in addition thereto or in amendment thereof, and all taxes which have been or may be assessed on property under construction, and all assessments which have been or may be made for public improvements, chargeable under the accounting rules of the commission in force December 31, 1917, to investment in road and equipment, shall be paid by the companies; but upon the amount thus chargeable to investment interest shall be paid to the company during Federal control at the rate provided in paragraph (*d*) of section 7 hereof. Taxes assessed during construction on additions, betterments, and road extensions made by the companies with the approval or by order of the director general during Federal control shall be considered a part of the cost of such additions, betterments, and extensions, and shall, under the provisions of paragraph (*d*) of section 7 hereof, bear interest as a part of such cost from the date of the completion of such additions, betterments, or extensions. Assessments for public improvements which do not become a part of the property taken over shall bear interest from the date of the payment of such assessment.

(*b*) If any tax or assessment which under this agreement is to be paid by the companies is not paid by them when due, the same may be paid by the director general and deducted from the next installment of compensation due under section 7 hereof. If any taxes properly chargeable to the director general have been or shall be paid by the companies, they shall be duly reimbursed therefor.

(*c*) The director general shall either pay out of revenues derived from railway operation during the period of Federal control or shall save the companies harmless from all taxes lawfully assessed under Federal or any other governmental authority for any part of said period on the property under such control, or on the right to operate as a carrier, or on the revenues derived from operation, and all other taxes which under the accounting rules of the commission in force December 31, 1917, are properly chargeable to "railway tax accruals," except the taxes and assessments for which provision is made in paragraph (*a*) of this section. The director general shall pay or save the companies harmless from the expense of all suits respecting the classes of taxes payable by him under this agreement.

(*d*) If any such tax is for a period which began before January 1, 1918, or continues beyond the period of Federal control, such portion of such tax as may be apportionable to the period of Federal control shall be paid by the director general, and the remainder shall be paid by the companies.

(e) Whenever a period for which a tax is assessed can not be definitely determined, so much of such tax as is payable in any calendar year shall be treated as assessed for such year.

SECTION 7.—COMPENSATION.

SEC. 7. (a) The annual compensation guaranteed to the companies under section 1 of the Federal control act shall be the sum of ...... dollars and ...... cents ($......) during each year and pro rata for each fractional part of a year of Federal control, subject, however, to any increase or decrease in the standard return hereafter made by the commission as provided in paragraph (e) of the preamble of this agreement.

Compensation paid by the director general under this agreement, including that provided for in paragraph (d) of this section, or arising from any other source, shall be paid to the company; and the company, after retaining such part thereof as it may be entitled to retain, shall distribute the remainder to the parties entitled thereto.

(b) The said compensation shall be paid to the company quarterly in equal installments on the last days of March, June, September, and December of each year for the quarter ending therewith, except that the first four installments shall be due as of March 31, 1918, June 30, 1918, September 30, 1918, and December 31, 1918, respectively, but shall be paid upon the execution of this agreement; but from each installment there may be deducted any amount then due by the companies under paragraphs (a) and (d) of section 4 hereof, under paragraph (b) of section 5 hereof, and under paragraph (b) of section 6 hereof, and all amounts required to réimburse the United States for the cost of additions and betterments made to the property of the companies not justly chargeable to the United States, unless such matters are financed or otherwise taken care of by the companies to the satisfaction of the director general, and the director general may apportion any such amounts to two or more subsequent installments: *Provided, however*, That said power to deduct amounts due or accruing under paragraph (b) of section 5 hereof and the cost of additions and betterments not justly chargeable to the United States shall not be so exercised as to prevent the companies from paying out the sums reasonably required to support their corporate organizations, to keep up sinking funds for the companies' debts required by contracts in force December 31, 1917, to pay their taxes, to pay rents and other amounts (not chargeable to capital account) properly payable by the companies for leased or operated roads and properties, to pay interest which has heretofore been regularly paid by the companies, and interest on loans issued during Féderal control and approved by the director general, nor shall such deduction be made in respect of additions and betterments which are for war purposes and not for the normal development of the companies, nor in respect of road extensions, nor in respect of amounts due under paragraphs (a) and (d) of section 4 hereof, in cases where the current assets, including materials and supplies, of the companies taken over by the director general under the provisions of this agreement clearly exceed the current liabilities of the companies paid or assumed by the director general under said section. In the event of a difference as to the fact whether additions and betterments are for war purposes and not for the normal development of the companies, or as to whether an addition is a road extension, the question may, on application of the director general or the company, be referred to and determined by the commission.

The power provided in this paragraph to deduct the amount due by the companies for the cost of additions and betterments not justly chargeable to the United States is further declared to be an emergency power, to be used by the director general only when he finds that no other reasonable means is provided by the companies to reimburse the United States, and, as contemplated by the President's proclamation and by the Federal control act, it will be the policy of the director general to so use such power of deduction as not to interrupt unnecessarily the regular payment of dividends as made by the companies during the test period.

Overdue installments of compensation, or balances thereof, provided for in this section shall bear interest from maturity at the rate of 5 per cent per annum, except that if the director general shall, prior to the execution of this contract, have loaned the companies any money, then to the extent of the amount thus loaned the installments of compensation overdue at the date of the execution hereof shall bear interest from maturity at the same rate as that charged to the companies on such loans.

(c) During Federal control the companies shall not, without the prior approval of the director general, issue any bonds, notes, equipment trust certificates, stock, or other securities, or enter into any contracts (except contracts in respect of corporate affairs and property not taken under Federal control), or agree to pay interest on their debts at a higher rate, or for rent of leased roads and properties a larger amount, than the rates and amounts payable as of, or required by contracts in force on December 31, 1917. The companies may, however, procure the authentication and delivery to them under any mortgage or trust deed or agreement in force December 31, 1917, of

bonds or notes issuable thereunder in respect of additions, betterments, extensions, and equipment, or for refunding purposes.

(*d*) Upon the cost of additions and betterments, less retirements in connection therewith, and upon the cost of road extensions, made to the property of the companies during Federal control, the director general shall, from the completion of the work, pay the company a reasonable rate of interest, to be fixed by him on each occasion. In fixing such rate or rates he may take into account not merely the value of money but all pertinent facts and circumstances, whether the money used was derived from loans or otherwise, provided that to the extent that the money is advanced by the director general or is obtained by the companies from loans or from the proceeds of securities the rate or rates shall be the same as that charged by the director general for loans to the companies or to other companies of similar credit.

(*e*) From the compensation so received or from other income, if adequate for the purpose, the companies shall make all payments of interest, rents (other than the equipment rents, joint facility rents, and rents classified as operating expenses mentioned in paragraph (*j*) of section 4 hereof), and other sums necessary to prevent a default under any mortgage or lease of any of the property described in paragraph (*a*) of section 2 hereof, and if at any time during Federal control the companies, by virtue of any change in the right of possession (subject to the rights of the United States) to any of said property or otherwise, shall no longer be entitled as between themselves and any other person or corporation, not a party to this agreement, to receive the entire compensation herein provided, such compensation shall be apportioned and paid as between those entitled thereto, as justice and right may require.

SECTION 8.—CLAIMS FOR LOSSES ON ADDITIONS, ETC.

SEC. 8. (*a*) Prompt notice in writing, except as provided in paragraph (*d*) of this section, shall be given the companies of the making or ordering of any additions, betterments, or road extensions, including terminals, motive power, cars, or other equipment to or for the property of the companies costing more than $1,000, with an estimate of the cost thereof. Such notice shall be given before the beginning of the work or the acquisition of the property whenever in the judgment of the director general it is practicable to do so. Within a reasonable time after the completion of the work or the acquisition of the property, a written statement of the final cost thereof shall be given the companies. There shall be furnished the companies, as soon as practicable after the end of each month, a written statement of all expenditures estimated to cost $1,000 or less chargeable to investment in road and equipment made during the month, with a brief description of the work done or of the property acquired, and such statement shall constitute all the notice of additions and betterments costing $1,000 or less required by (*b*) and (*c*) of this section. The notices provided in this paragraph may be given to the president of the company unless the company designates some other officer to receive the same, in which event the notice shall be given to such other officer.

(*b*) Any claim of the companies for loss accruing to them by reason of expenditures for additions and betterments made to their property during Federal control in connection with or as a part of the work of maintaining, repairing, and renewing the companies' property and chargeable under the accounting rules of the commission in force December 31, 1917, to investment in road and equipment, except such expenditures as are incured in connection with the replacement of buildings and structures in new locations, may be determined by agreement between the director general and the companies, or, failing such agreement as to the fact or amount of such loss, the questions at issue may, upon the application of the director general or the companies at any time after the filing of the statement of claim hereinafter referred to, be ascertained in the manner provided in section 3 of the Federal control act: *Provided, however*, That no loss shall be claimed by the companies and no money shall be due them in respect of such additions and betterments upon the ground that the actual cost thereof at the time of construction was greater than under other market and commercial conditions, and for the purpose of determining such controversy the amount paid for any addition or betterments shall be deemed the fair and reasonable cost thereof and shall be taken as the basis for such determination; nor unless the companies, within sixty days of notice to them that the work will be done, shall give the director general notice of objection thereto and shall file with the director general a statement of claim within 90 days after notice of the completion of the work.

(*c*) Any claim of the companies for loss accruing to them by reason of any additions and betterments which are not made in connection with or as a part of the work of maintaining, repairing, and renewing the companies' property, or accruing to them in connection with maintenance in the replacement of buildings and structures in

new locations, or by reason of road extensions, terminals, motive power, cars, or other equipment made to or provided for the property of the companies during Federal control, may be determined by agreement between the director general and the companies, or failing such agreement as to the fact or amount of such loss, may, by proceedings instituted not later than six months after the end of Federal control be ascertained in the manner provided in section 3 of the Federal control act: *Provided, however,* That no loss shall be claimed by the companies and no money shall be due to them in respect of such additions, betterments, road extensions, terminals, motive power, cars, or other equipment mentioned in this paragraph upon the ground that the actual cost thereof at the time of construction or acquisition was greater than under other market and commercial conditions; and for the purpose of determining such controversy the amount paid for any additions, betterments, road extensions, terminals, motive power, cars, or other equipment shall be deemed the fair and reasonable cost thereof and shall be taken as the basis for such determination; nor unless within 60 days after notice to the company of such construction or acquisition written notice is given to the director general by the company that a loss will be claimed in respect thereof. With and as a part of such notice the company shall state the objections to such construction or acquisition as far as reasonably practicable at the time. Nothing in this agreement shall be construed as barring the United States from contending that no loss within the meaning of the Federal control act accrued to the companies by reason of any additions, betterments, or road extensions made during Federal control by order or approved of the director general, if it is made to appear that the companies themselves but the Federal control should in the exercise of sound judgment have made such addition, betterment, or road extension.

(*d*) Where additions, betterments, or road extensions or terminals, motive power, cars, or other equipment have been made to or provided for the property of the companies during Federal control but prior to the execution of this agreement, the director general shall not be required to give the notice thereof provided for in paragraph (*a*) of this section and notice by the company of any claim of loss in respect thereto may be given the director general within 90 days after the execution hereof; and such claims shall thereafter be proceeded with in the manner provided in paragraph (*b*) or paragraph (*c*) of this section, as the case may be.

(*e*) The director general shall reimburse the companies for the amount of loss ascertained under this section with a proper adjustment of interest thereon.

(*f*) The director general shall not acquire any motive power, cars, or other equipment at the expense or on the credit of the companies in excess of what in his judgment is necessary, in addition to their then existing equipment, to provide for the traffic requirements of their own systems of transportation; but this provision shall not prevent the director general, after the acquisition of such equipment, from using the same or any part thereof on the line of any other transportation system operated by him.

SECTION 9.—FINAL ACCOUNTING.

SEC. 9. (*a*) At the end of Federal control all the property described in paragraph (*a*) of section 2 hereof shall be returned to the companies, together with all repairs, renewals, additions, betterments, replacements, and road extensions thereto which have been made during Federal control, except as any part thereof may have been destroyed or retired and not replaced, in which case the provisions of section 5 hereof shall govern and except that the director general shall not be obliged to restore or replace property destroyed or damaged by the acts of public enemies.

(*b*) At the end of Federal control the director general shall return to the companies all uncollected accounts received by him from them and also materials and supplies equal in quantity, quality, and relative usefulness to that of the materials and supplies which he received, and to the extent that the director general does not return such materials and supplies he shall account for the same at prices prevailing at the end of Federal control. To the extent that the companies receive materials and supplies in excess of those delivered by them to the director general they shall account for the same at the prices prevailing at the end of Federal control and the balance shall be adjusted in cash.

(*c*) The total amount of the account "Net balance receivable from agents and conductors" at the end of Federal control may be turned over by the director general to the company. He may also turn over all assets which have accrued out of operation; and the company shall, to the extent of the cash received or realized from such assets, pay and charge to the director general all expenses arising out of railway operations during Federal control, including reparation and other claims, and may, unless objection is made by the director general, pay and charge to him any such expenses including reparation and other claims, in excess of the cash so received or realized.

On the first day of the third month following the termination of Federal control an accounting between the parties shall be had, and so on the first of each third month thereafter. Any balance found due either party shall be payable as of the date on which the account is stated and shall bear interest until paid.

(*d*) At the end of Federal control there shall be paid to the companies any balance then remaining unpaid of the cash received from them at the beginning of or during Federal control, together with any unpaid interest which may have accrued upon the same. There shall also be paid to the companies any funds created under the provisions of this agreement except to the extent that such funds may have been properly used under this agreement.

(*e*) Wherever under any provision of this section there is to be an adjustment of interest it shall be at the rate of 5 per cent per annum, unless the parties shall in any case agree on a different rate.

(*f*) After Federal control no claim by or against the director general shall be settled by the companies against the written objection of the director general or the Attorney General of the United States. The conduct of all litigation before any court or commission arising out of such disputed claims or out of operations during Federal control shall be in charge of the companies' legal force, and the expense thereof shall be paid by the companies; but the director general or the Attorney General may, at the expense of the United States, employ special counsel in connection with any such litigation.

EXECUTION.

In witness whereof, These presents have, on the day and year first above written, been duly signed, sealed, and delivered by Walker D. Hines, Director General of Railroads, and duly signed, sealed, and delivered by the ...... company and its ...... affiliated companies, by their respective presidents, and their representive corporate seals affixed hereto, attested by their respective secretaries, such execution and delivery on the part of said companies having been duly ordered and directed by vote of their respective boards of directors on the ...... day of ......, 1919, which action on the part of the ...... company had been authorized by a vote of its stockholders, at a special meeting, duly held on the ...... day of ......, 1919, at the company's principal office in the city of ...... and State of ......, and which action of the respective boards of directors of said ...... affiliated companies has been duly authorized by vote of their respective stockholders, at meetings duly called and held subsequently to said last-mentioned date, certificates of all of which meetings, duly attested by their respective secretaries of said companies, have been lodged with the director general.

....,
Director General of Railroads.

...... Co.,
By ....,
President.

Attest:

....,
Secretary.

Attest:

...... Co.,
By ....,
President.

....,
Secretary.

[Form A, January 25, 1919.—For companies without subsidaries.]

AGREEMENT BETWEEN THE DIRECTOR GENERAL OF RAILROADS AND THE ——— CO., ———, 1919.

PREAMBLE AND RECITALS.

This agreemant, made this ——— day of ———, 1919, between Walker D. Hines, Director General of Railroads, hereinafter called the director general, acting on behalf of the United States and the President, under the powers conferred by the proclamations of the President hereinafter referred to, and the ——— company, a corporation duly organized under the laws of the State (s) of ———, hereinafter called the company.

Witnesseth that: (*a*) Whereas by a proclamation dated December 26, 1917, the President, acting under the powers conferred on him by the Constitution and laws of the United States, by the joint resolutions of the Senate and House of Representa-

tives bearing date April 6 and December 7, 1917, respectively, and particularly under the powers conferred by section 1 of the act of Congress approved August 29, 1916, entitled "An act making appropriations for the support of the Army for the fiscal year ending June 30, 1917, and for other purposes," took possession and assumed control at 12 o'clock noon on December 28, 1917, of certain railroads and systems of transportation, including the railroad and transportation system of the company and the appurtenances thereof, and directed that the possession, control, operation, and utilization of the transportation systems thus taken should be exercised by and through William G. McAdoo, appointed Director General of Railroads; and

(b) Whereas the Congress of the United States, by an act approved March 21, 1918, hereinafter called the Federal control act, has authorized the President to enter into agreements with the companies owning the railroads and systems thus taken over for the maintenance and upkeep of the same during the period of Federal control, for the determination of the rights and obligations of the parties to the agreement arising from or out of Federal control, including the compensation to be received or guaranteed, and for other purposes, as in said act more fully set out, and authorized the President to exercise any of the powers by said act or theretofore granted him with relation to Federal control through such agencies as he might determine: and

(c) Whereas by a proclamation dated March 29, 1918, the President, acting under the Federal control act and all other powers him thereto enabling, authorized the director general, either personally or through such divisions, agencies, or persons as he may appoint, and in his own name or in the name of such divisions, agencies, or persons, or in the name of the President, to agree with the carriers, or any of them, or with any other person in interest, upon the amount of compensation to be paid pursuant to law, and to sign, seal, and deliver in his own name or in the name of the President or in the name of the United States such agreements as may be necessary and expedient with the several carriers or other persons in interest respecting compensation, or any other matter concerning which it may be necessary or expedient to deal, and to make any and all contracts, agreements, or obligations necessary or expedient and to issue any and all orders which may in any way be found necessary and expedient in connection with the Federal control of systems of transportation, railroads, and inland waterways as fully in all respects as the President is authorized to do, and generally to do and perform all and singular the acts and things and to exercise all and singular the powers and duties which in and by the said act, or any other act in relation to the subject thereof, the President is authorized to do and perform: and

(d) Whereas the said William G. McAdoo has resigned as Director General of Railroads and by a proclamation dated January 10, 1919, the President appointed Walker D. Hines Director General of Railroads and authorized him, either personally or through such divisions, agencies, or persons as he may appoint, in his own name or in the name of such divisions, agencies, or persons, or in the name of the President, to agree with the carriers or any of them or with any other person in interest, upon the amount of compensation to be paid pursuant to law, and to sign, seal, and deliver in his own name or in the name of the President or in the name of the United States of America such agreements as may be necessary and expedient with the carriers or other persons in interest respecting compensation, or any other matter concerning which it may be necessary or expedient to deal, and to make any and all contracts, agreements, or obligations necessary or expedient, and to issue any and all orders which may in any way be found necessary and expedient in connection with the Federal control of the systems of transportation taken over by the proclamation of December 26, 1917, as fully in all respects as the President is authorized to do, and generally to do and perform all and singular the acts and things and to exercise all and singular the powers and duties in relation to such Federal control that the President is by law empowered to do and perform: and

(e) Whereas the Interstate Commerce Commission has certified to the President that the amount of the average annual railway operating income of the company, computed in the manner provided in section 1 of the Federal control act, is ——— dollars and ——— cents ($———), subject to such changes and corrections as the commission may hereafter determine and certify to be requisite in order that the accounts and reports of the company used by the commission as the basis of computing said average annual railway operating income may be brought into conformity with the accounting rules or regulations of the commission in force at the time of such accounting, or in order to correct computations based on such accounts or reports.

Now, therefore, the parties hereto, each in consideration of the agreements of the other herein contained, do hereby covenant and agree to and with each other as follows:

SECTION 1.—PRIVITY, ALTERATIONS, DEFINITIONS, ETC.

SEC. 1. (*a*) This agreement shall be binding upon the United States, the director general and his successors, and upon the company, its successors, and assigns.

This agreement shall not be construed as creating any right, claim, privilege, or benefit against either party hereto in favor of any State or any subdivision thereof, or of any individual or corporation other than the parties hereto.

(*b*) The provisions of this agreement may be altered, amended, or added to by and only by mutual consent signified by instruments in writing signed by the director general and by some officer of the company thereto duly authorized by the board of directors of the company.

(*c*) Wherever in this agreement the word "commission" is used it shall be understood as meaning the Interstate Commerce Commission, acting by divisions or otherwise as authorized by law; but either party shall have the right to have the decision of any division reviewed by the commission sitting as a whole.

(*d*) Wherever in this agreement the words "Federal control" are used to indicate a period of time, they shall be understood as meaning the period from 12 o'clock midnight of December 31, 1917, to and including the day and hour on which said control shall cease.

(*e*) Wherever in this agreement the words "test period" are used, they shall be understood as meaning the period between July 1, 1914, and June 30, 1917, both inclusive.

(*f*) Wherever in this agreement the words "standard return" are used, they shall be understood as meaning the average annual railway operating income of the company, computed in the manner provided in section 1 of the Federal control act, and ascertained and certified by the commission.

(*g*) Wherever in this agreement the words "director general" are used, they shall be understood as designating the person who has been or may from time to time be appointed by the President to exercise the powers conferred on him by law with relation to Federal control, or such agents or agencies as the director general may from time to time appoint for the purpose; and wherever by this agreement any notice is to be given by the director general, the same may be given in his name by any subordinate thereto duly authorized.

(*h*) Wherever the property of the company is referred to in this agreement it shall be understood as including all the property described in paragraph (*a*) of section 2 hereof, whether owned by or leased to the company, and where the context permits, all additions or betterments thereto or extensions thereof made during Federal control; and as to all such leased property the company shall have the benefit of and be subject to all the obligations and provisions of this agreement and shall be subject to all duties imposed by law in respect of such leased property.

(*i*) The descriptive words at the heads of the several sections of this agreement and the table of contents are inserted for convenience merely, and are not to be used in the construction of the agreement.

SECTION 2.—PROPERTY TAKEN OVER.

SEC. 2. The company's railroad and system of transportation of which the President has taken over possession, use, control, and operation shall be considered as including:

(*a*) The following roads and properties:

together with all branches and tracks, trackage, bridge, and terminal rights, and lines of railroad owned by or leased to and operated by the company as a part of its system of transportation, and all other property of the company with the appurtenances thereof, whether included in the foregoing list or not, the revenues of which were used, or which, if the property had been then owned by or leased to it and had then been revenue bearing, would have been used, in computing the company's standard return.

The company reserves to itself the benefit of all leases (and of all rents and revenues accruing therefrom), of parts of its right of way, station grounds, and other property, the revenues from which under the accounting rules of the commission in force during the test period were properly creditable to "miscellaneous rent income" or "miscellaneous income." The company grants to the director general all its rights to terminate leases of any part of its right of way, yards, or station grounds, and to occupy and use the premises of any such lessee when, in his judgment, the same is required for operating purposes. The company shall have for its own benefit the right to lease for industrial sites or other purposes such portion of its right of way, yards, or station grounds, or structures thereon as are not required by the director general for operating purposes, and to receive and enjoy the rentals therefrom, sub-

ject to the right of the director general to cancel any such lease and to occupy the premises or structures whenever, in his judgment, the same are necessary for operating purposes. All expenses connected with any such property heretofore or hereafter leased or otherwise occupied, as in this paragraph provided, including taxes thereon which during the test period were not charged to railway tax accruals, shall be paid by the company while receiving the revenues therefrom.

(*b*) All materials and supplies on hand at midnight December 31, 1917.

(*c*) All balances in the account or accounts representing the total of "Net balance receivable from agents and conductors" as of midnight December 31, 1917.

SECTION 3.—ACCEPTANCE.

SEC. 3. (*a*) The company accepts all the terms and conditions of the Federal control act and any regulation or order made by or through the President under authority of said act or of that portion of the act approved August 29, 1916, referred to in paragraph (*a*) of the preamble to this agreement which authorizes the President in time of war to take possession, assume control, and utilize systems of transportation; and the company further and expressly accepts the covenants and obligations of the director general in this agreement set out and the rights arising thereunder in full adjustment, settlement, satisfaction, and discharge of any and all claims and rights, at law or in equity, which it now has or hereafter can have, otherwise than under this agreement, against the United States, the President, the director general, or any agent or agency thereof, for compensation under the Constitution and laws of the United States for the taking possession of its property, and for the use, control, and operation thereof during Federal control, and for any and all loss and damage to its business or traffic by reason of the diversion thereof or otherwise which has been or may be caused by said taking or by said possession, use, control, and operation.

No claim is made by the company for compensation for the period between noon of December 28 and midnight of December 31, 1917; and the revenues of said period shall belong to the company, and the expenses thereof shall be paid by the company, allocated in both cases as provided in paragraph (*b*) of section 4 hereof.

(*b*) The company, on its own initiative or upon the request of the director general, shall take all appropriate and necessary corporate action to carry out the obligations assumed by it in this agreement or lawfully imposed upon it by or pursuant to the proclamation of December 26, 1917, or by the Federal control act.

(*c*) The Federal control act being in section 16 thereof expressly declared to be emergency legislation enacted to meet conditions growing out of war, nothing in this agreement shall be construed as expressing or prejudicing the future policy of the Federal Government concerning the ownership, control, or regulation of the company, or the method or basis of the capitalization thereof, and the recitals or provisions of this agreement shall not be used, as evidence or otherwise, by or against either party hereto in any pending or future proceeding which involves the acquisition or valuation of the company's property or any part thereof; but nothing in this paragraph shall be taken or construed as affecting the settlement and discharge contained in paragraph (*a*) of this section, nor as limiting or qualifying any of the provisions of said paragraph for the purposes thereof, nor as limiting the use of this agreement as evidence in any proceeding under this agreement or under the Federal control act.

SECTION 4.—OPERATION AND ACCOUNTING DURING FEDERAL CONTROL.

SEC. 4. (*a*) All amounts received by the director general under paragraph (*c*) of section 2 hereof and all other amounts whether received from the company in cash or collected or realized upon by him from current operating assets belonging to the company or arising from railway operations prior to midnight of December 31, 1917, shall be credited by him to the company; and the director general shall, to the extent of the cash so received or realized, pay and charge to the company all expenses arising out of railway operations prior to January 1, 1918, including reparation claims, and, unless objected to by the company, may pay and charge to the company any of such expenses, including reparation claims, in excess of the cash so received or realized. Balances of the above accounts shall be struck quarterly on the last days of March, June, September, and December of each year, and the cash balance found on such adjustments to be due either party shall be then payable and, if not paid, shall bear interest at the rate of 6 per cent per annum, unless the parties shall agree upon a different rate; except that the rate of interest on any portion of a balance found due to the company which is derived from cash in bank to the credit of such company on interest, shall be adjusted in each case independently of this contract as the parties may agree.

(*b*) Railway operating expenses, reparation and other claims, hire of equipment and joint facility rents shall be allocated with reference to the time when incurred as between the period prior and subsequent to midnight of December 31, 1917, and as between the period of Federal control and the period subsequent thereto. Railway operating revenues shall be allocated as between the period prior and subsequent to midnight of December 31, 1917, in accordance with the established actual practices of the company; except that where prior to midnight of December 31, 1917, the company's part of a service on through business has been completed or carload lots on its own line had reached destination, the revenue of the company for such service shall be allocated to it: but as to classes of traffic where in the opinion of the director general such allocation will involve undue delay or undue absorption of accounting labor, such revenues shall be allocated in accordance with the established accrual practices of the company. Like methods of accruing and allocating such revenues shall be made at the end of Federal control.

(*c*) All expenditures made by the director general during Federal control for additions and betterments, exclusive of equipment, or for extensions begun prior to January 1, 1918, shall be charged to the company, and if the completion of any such addition, betterment, or extension is approved or ordered by the director general, the company shall be entitled, under the provisions of paragraph (*d*) of section 7 hereof to interest on the cost thereof from the completion of the work; but no interest (except to the extent that the same may be allowed and included in the compensation provided for in paragraph (*a*) of section 7 hereof) shall be due the company upon any such expenditures for work done prior to January 1, 1918. Payments for all equipment ordered or under construction by the company prior to January 1, 1918, but delivered on or after that date, shall also be considered as expenditures made by order or approval of the director general under paragraph (*d*) of section 7 hereof. Interest during construction payable under this paragraph, and also interest during construction on the cost of any additions, betterments, and road extensions made by the company or at its expense to the company's property during Federal control, shall be included in the cost of the work.

(*d*) Cash receipts or disbursements and other items arising out of transactions which do not enter into or form a part of those used in determining the company's standard return shall not be received or paid by the director general unless such transactions are negotiated or conducted by his order for account of the company and with its consent. When moneys are so received or paid by the director general in connection with such corporate transactions they shall be credited or charged to the company. There shall be an accounting of the amounts due by one party or the other under this paragraph at the end of each quarter year of Federal control, and the amount so found due shall be then payable and if not paid shall bear interest as provided in paragraph (*a*) of this section.

(*e*) All sums paid by the director general to maintain pension funds or pension obligations or practices, and all contributions to Young Men's Christian Associations of employees, employees' savings funds, relief funds or associations, reading rooms, or health, accident, or death benefits for employees, shall be treated as a part of railway operating expenses during Federal control.

(*f*) All salaries and expenditures incurred by the company during Federal control for purposes which relate to the existence and maintenance of the corporation, or to the properties of the company not taken over by the President, or to negotiations, contracts, valuations, or any business controversy with the Government or any branch thereof, and which are not specially authorized by the director general, shall be borne by the company; except that the expenses of valuation now being made by the commission to the extent that they are, in the opinion of the director general, necessary to comply with the valuation orders and other requirements of the commission and to the cooperation of the company in the making of such valuation, shall be paid by the director general as a part of railway operating expenses. If the company is dissatisfied with the ruling of the director general, it may appeal to the commission, whose decision shall be final.

(*g*) The director general shall furnish for additions, betterments, and road extensions to the company's property approved or ordered by him any of the materials and supplies taken over under paragraph (*b*) of section 2 hereof, or puchased by him and held for use in connection with the company's property, in so far as, in his judgment, he can do so with due regard to his own requirements. Materials and supplies so furnished shall be charged to the company at cost.

(*h*) The director general shall at his option be substituted for the period of Federal control in the place of the company in respect of the benefits and obligations of contracts relating to operation in force January 1, 1918 (including contracts made by subsidiaries for the use and benefit of the company and the right to abrogate or change

and make new contracts with express companies for the period of Federal control), except as to contracts between the company and subsidiary companies which shall be considered and treated as arrangements or practices; and the director general shall in like manner at his option be substituted for such period in respect of the benefits and obligations of arrangements and practices in force during the test period in regard to fuel, materials, and supplies for the operation of the property described in paragraph (a) of section 2 hereof and of any additions, betterments, and road extensions thereto, obtained from any mine, oil field, or other source of supply owned or controlled by the company, it being understood that under such arrangements or practices, if availed of by the director general, he shall, to the extent necessary to offset any increase in the standard return growing out of the furnishing by the company or of its subsidiaries, during the test period, of fuel, materials, and supplies under an arrangement or practice at less than the then cost or the then market value thereof for railroad purposes, be charged for such fuel, materials, and supplies a price expressed in dollars or cents per unit below or above the then cost or the then market value thereof for railroad purposes (as the practice of the company may have been) in the same amount that the prices charged the company during the test period were below or above the then cost or the then market value thereof for railroad purposes; and at the request of the director general or the company the prices for fuel or materials supplied between December 31, 1917, and the execution of this contract shall be adjusted on the foregoing basis: *Provided, however*, That a source of supply which the company had acquired to safeguard its own operations shall not be depleted or reduced for use on other transportation systems, except in cases of emergency to be determined by the director general, in which event the quantity so used on other transportation systems shall be accounted for to the company at the fair value thereof: *And provided further*, That materials and supplies secured under contracts which the company had made for its own operations shall, so far as practicable, be used on the company's property, and that, if used on any other transportation system, materials and supplies of like character shall be furnished by the director general for use in making such additions, betterments, and road extensions as shall be chargeable to the company, and shall be charged at cost under such contracts.

(i) The director general shall pay, or save the company harmless from, all expenses incident to or growing out of the possession, operation, and use of the property taken over during Federal control, except the expenses which under this agreement are to be borne by the company. He shall also pay or save the company harmless from all rents called in the monthly reports to the commission equipment rents or joint-facility rents, and all judgments or decrees that may be recovered or issued against, and all fines and penalties that may be imposed upon, the company by reason of any cause of action arising out of Federal control, or of anything done or omitted in the possession, operation, use, or control of the company's property during Federal control, except judgments or decrees founded on obligations of the company to the director general or the United States.

(j) Except as otherwise provided in this agreement, the director general shall save the company harmless from any and all liability, loss, or expense resulting from or incident to any claim made against the company growing out of anything done or omitted during Federal control in connection with, or incident to, operation or existing contracts relating to operation, and shall do and perform, so far as is requisite under Federal control for the protection of the company, all and singular the things, of which he may have notice, necessary and appropriate to prevent because of Federal control or of anything done or omitted thereunder, the forfeiture or loss by the company of any of its property rights, ordinance rights, or franchises, or of its trackage, lease, terminal, or other contracts involving a facility of operation; but nothing herein contained shall be construed to require the director general to make any capital expenditure necessary to preserve a franchise or ordinance right not heretofore availed of by the company. The director general shall also save the company harmless from any and all claims for breach of covenant heretofore entered into by the company or by any predecessor in title or interest in any mortgage or other instrument in respect to insurance against losses by fire.

Nothing in this or in the preceding paragraph shall be construed to be an assumption by the director general of, or to make him liable on, any obligation of the company to pay a debt secured by a mortgage or any rent under a lease, except rents which during the test period were called in the monthly reports to the commission equipment rents and joint-facility rents and rents which under the accounting rules of the commission in force during the test period were classified as operating expenses.

The company shall, during Federal control, pay the rents of any property, held by it under lease or contract, described in paragraph (a) of section 2 hereof, except the rents which during the test period were, under the rules of the commission, classified

as equipment rents or joint facility rents, and rents which were classified as operating expenses; which excepted rents shall be paid by the director general. If the lease of, or right to use, any property described in paragraph (*a*) of said section 2 expires during Federal control, the company shall, if possible, and if requested by the director general, renew the same; the rental, however, of property in the excepted classes above mentioned shall be paid by the director general. The company shall pay the same amount of rent as was payable at the beginning of Federal control for other property, the lease of or right to use which is renewed at the request of the director general, but any increase in the rental of such other property shall be paid by the director general.

(*k*) In carrying out the provisions of paragraphs (*a*), (*b*), (*c*), and (*d*) of this section and the provisions of section 6 hereof the director general shall not settle any claim by or against the company against the objection in writing of the president or of any other duly authorized officer of the company. The conduct of all litigation before any court or commission arising out of such disputed claims, or out of operation prior to Federal control, shall be in charge of the director general's legal force and the expense thereof shall be paid by the director general; but the company may, at its own expense, employ special counsel in connection with any such litigation.

(*l*) Nothing in this agreement shall be construed as inconsistent with the provisions in section 10 of the Federal control act that no process, mesne or final, shall be levied against any property under Federal control, nor as a waiver by the United States of any claim that might otherwise be made by it that the rights of any State or subdivision thereof of of any individual or corporation have been abrogated or suspended by the taking over of the company's property or by Federal control.

(*m*) The company shall have the right at all reasonable times to inspect the books and accounts kept by the director general relating to the property of the company, or to the operation thereof, and the director general shall during Federal control furnish the company with a copy of the operating reports relating to its property, and as soon as practicable after the end of each fiscal year shall furnish to the company a complete list of its equipment as of the end of such fiscal year.

SECTION 5.—UPKEEP.

SEC. 5. (*a*) During the period of Federal control the director general shall, annually, as nearly as practicable, expend and charge to railway operating expenses, either in payments for labor and materials or by payments into funds, such sums for the maintenance, repair, renewal, retirement, and depreciation of the property described in paragraph (*a*) of section 2 hereof as may be requisite in order that such property may be returned to the company at the end of Federal control in substantially as good repair and in substantially as complete equipment as it was on January 1, 1918: *Provided, however*, That the annual expenditure and charges for such purposes during the period of Federal control on such property and the fair distribution thereof over the same, or the payment into funds, of an amount equal to the aggregate (subject to the adjustments provided in paragraph (*c*) and to the provisions of paragraph (*e*) of this section) to the average annual expenditure and charges for such purposes included under the accounting rules of the commission in railway operating expenses during the test period, less the cost of fire insurance included therein, shall be taken as a full compliance with the foregoing covenant.

(*b*) The director general may expend such sums, if any, in addition to those expended and charged under paragraph (*a*) of this section (subject to the adjustments provided in paragraph (*c*) of this section) as may be requisite for the safe operation of the property described in paragraph (*a*) of section 2 hereof, assuming a use similar to the use during the test period and not substantially enhancing the cost of maintenance over the normal standard of maintenance of railroads of like character and business during said period; and the amount, if any, of such excess expenditures during Federal control shall be made good by the company as provided in paragraph (*b*) of section 7 hereof.

(*c*) In comparing the amounts expended and charged under the provisions of paragraphs (*a*) and (*b*) of this section with the amounts expended and charged during the test period, due allowance shall be made for any difference that may exist between the cost of labor and materials and between the amount of property taken over and the average for the test period, and, as to paragraph (*a*), for any difference in use between that of the test period and during Federal control which in the opinion of the commission is substantial enough to be considered, so that the result shall be, as nearly as practicable, the same relative amount, character, and durability of physical reparation.

(*d*) At the request of either party there shall be an accounting of the amounts due by one party or the other under paragraphs (*a*) and (*b*) of this section at the end of each year of Federal control and at the end of Federal control.

ing Federal control any of the property described in paragraph (*a*) of
ɪreof or any replacement thereof or addition thereto or betterment or
ereof is destroyed or damaged otherwise than by fire or public enemies,
ɪtored or replaced by the director general, he shall reimburse the company
the property destroyed or the amount of damage at the time of the loss,
of restoration or replacement, or said value or damage, as the case may be,
rged to annual railway operating expenses; it being understood that
y losses caused by floods, explosions, train wrecks, or accident are
the matters covered by this paragraph, while ordinary losses due to such
cluded in the matters covered by paragraph (*a*) of this section: *Provided*,
t if the commission, on application of either party and after giving due
to the practice of the company during the test period in respect to such
to any other pertinent facts and circumstances, determines that it is just
le that the said cost or value shall be apportioned or extended over a
e than one year, this shall be done, and so much of said cost or value as
tioned by the commission over the period subsequent to Federal control,
ged to the company in the final accounting at the end of Federal control
paid by it.
Federal control, any of the property described in paragraph (*a*) of sec-
or any replacement thereof or addition thereto or betterment or extension
troyed or damaged by fire, and is not restored or replaced by the director
hall reimburse the company the value of the property destroyed or the
e damage at the time of the fire; and the cost of restoration or replace-
value or damage, as the case may be, shall be charged to annual railway
penses, but the same shall not be considered a charge to such expenses
ses specified in paragraph (*a*) of this section.
ny such loss or damage by fire, the director general shall, if given written
requirements of any mortgage, equipment lease, or trust on the property
or damaged, make such restoration or replacement, or pay such value or
ich way as to meet the requirements of such mortgage, equipment lease,
e same manner as would have been proper in applying the proceeds of
such property if it had been insured by the company against loss or
e in accordance with the terms of such instruments of lien; and a com-
the written request of the company in respect thereof shall be a full
f any obligation of the director general in the premises.
ng parts of this paragraph are subject to the proviso that in case of loss or
dditions and betterments made in connection with or as a part of the
replacement of property damaged or destroyed and chargeable under
g rules of the commission in force December 31, 1917, to investment in
pment, shall be charged to and paid by the company.
r general shall not be liable to the company for any loss or damage due
public enemies.
lditions, betterments, or road extensions are made to the property taken
uipment is added at the expense of the company and with the approval
the director general during Federal control, he shall expend and charge
rating expenses such sums either in payments for labor and materials
ts into funds, as may be requisite for the proper maintenance, repair,
ement, and depreciation of such property until the end of Federal

pany shall have the right to inspect its property at all reasonable times
l control, and the director general shall provide reasonable facilities for
n.
uestion shall arise, either during or at the end of Federal control, as to
venants or provisions in this section contained are being or have been
natter in dispute shall, on the application of either party, be referred
ion which, after hearing, shall make such findings and order as justice
equire, which shall be final as to the questions submitted and shall be
l observed by both parties hereto, except that either party may take
law to the courts, if he or it so desires.

SECTION 6.—TAXES.

ll taxes assessed under Federal or any other governmental authority for
to January 1, 1918, including a proportionate part of any such tax as-
ember 31, 1917, for a period which includes any part of 1917 or pre-
nd unpaid on that date, all taxes commonly called war taxes which
ay be assessed against the company under the act of Congress entitled

"An act to provide revenue to defray war expenses, and for other purposes," approved October 3, 1917, or under any act in addition thereto or in amendment thereof, and all taxes which have been or may be assessed on property under construction, and all assessments which have been or may be made for public improvements, chargeable under the accounting rules of the commission in force December 31, 1917, to investment in road and equipment, shall be paid by the company, but upon the amount thus chargeable to investment interest shall be paid to the company during Federal control at the rate provided in paragraph (*d*) of section 7 hereof. Taxes assessed during construction on additions, betterments, and road extensions made by the company with the approval or by order of the director general during Federal control shall be considered a part of the cost of such additions, betterments, and extensions and shall under the provisions of paragraph (*d*) of section 7 hereof, bear interest as a part of such cost from the date of the completion of such additions, betterments, or extensions. Assessments for public improvements which do not become a part of the property taken over shall bear interest from the date of the payment of such assessment.

(*b*) If any tax or assessment which under this agreement is to be paid by the company is not paid by it when due, the same may be paid by the director general and deducted from the next installment of compensation due under section 7 hereof. If any taxes properly chargeable to the director general have been or shall be paid by the company, it shall be duly reimbursed therefor.

(*c*) The director general shall either pay out of revenues derived from railway operation during the period of Federal control or shall save the company harmless from all taxes lawfully assessed under Federal or any other governmental authority for any part of said period on the property under such control, or on the right to operate as a carrier, or on the revenues derived from operation, and all other taxes which under the accounting rules of the commission in force December 31, 1917, are properly chargeable to "railway tax accruals," except the taxes and assessments for which provision is made in paragraph (*a*) of this section. The director general shall pay or save the company harmless from the expense of all suits respecting the classes of taxes payable by him under this agreement.

(*d*) If any such tax is for a period which began before January 1, 1918, or continues beyond the period of Federal control, such portion of such tax as may be apportionable to the period of Federal control shall be paid by the director general, and the remainder shall be paid by the company.

(*e*) Whenever a period for which a tax is assessed can not be definitely determined, so much of such tax as is payable in any calendar year shall be treated as assessed for such year.

SECTION 7.—COMPENSATION.

SEC. 7. (*a*) The annual compensation guaranteed to the company under section 1 of the Federal control act shall be the sum of..

....

dollars and.................................... cents ($..........) during each year and pro rata for each fractional part of a year of Federal control, subject, however, to any increase or decrease in the standard return hereafter made by the commission as provided in paragraph (*e*) of the preamble of this agreement.

(*b*) The said compensation shall be paid to the company quarterly in equal installments on the last days of March, June, September, and December of each year for the quarter ending therewith, except that the first four installments shall be due as of March 31, 1918, June 30, 1918, September 30, 1918, and December 31, 1918, respectively, but shall be paid upon the execution of this agreement, but from each installment there may be deducted any amount then due by the company under paragraphs (*a*) and (*d*) of section 4 hereof under paragraph (*b*) of section 5 hereof, and under paragraph (*b*) of section 6 hereof, and all amounts required to reimburse the United States for the cost of additions and betterments made to the property of the company not justly chargeable to the United States, unless such matters are financed or otherwise taken care of by the company to the satisfaction of the director general, and the director general may apportion any such amounts to two or more subsequent installments: *Provided, however*, That said power to deduct amounts due or accruing under paragraph (*b*) of section 5 hereof and the cost of additions and betterments not justly chargeable to the United States shall not be so exercised as to prevent the company from paying out the sums reasonably required to support its corporate organi-

zation, to keep up sinking funds for the company's debts required by contracts in force December 31, 1917, to pay its taxes, to pay rents and other amounts (not chargeable to capital account) properly payable by the company for leased or operated roads and properties, to pay interest which has heretofore been regularly paid by the company, and interest on loans issued during Federal control and approved by the director general, nor shall such deduction be made in respect of additions and betterments which are for war purposes and not for the normal development of the company nor in respect of road extensions, nor in respect of amounts due under paragraphs (a) and (d) of section 4 hereof, in cases where the current assets, including materials and supplies of the company taken over by the director general under the provisions of this agreement clearly exceed the current liabilities of the company paid or assumed by the director general under said section. In the event of a difference as to the fact whether additions and betterments are for war purposes and not for the normal development of the company, or as to whether an addition is a road extension, the question may, on application of either party, be referred to and determined by the commission.

The power provided in this paragraph to deduct the amount due by the company for the cost of additions and betterments not justly chargeable to the United States is further declared to be an emergency power, to be used by the director general only when he finds that no other reasonable means is provided by the company to reimburse the United States, and as contemplated by the President's proclamation and by the Federal control act, it will be the policy of the director general to so use such power of deduction as not to interrupt unnecessarily the regular payment of dividends as made by the company during the test period.

Overdue installments of compensation, or balances thereof, provided for in this section shall bear interest from maturity at the rate of 5 per cent per annum, except that if the Director General shall, prior to the execution of this contract, have loaned the company any money, then to the extent of the amount thus loaned the installments of compensation overdue at the date of the execution hereof shall bear interest from maturity at the same rate as that charged to the company on such loans.

(c) During Federal control the company shall not, without the prior approval of the Director General, issue any bonds, notes, equipment trust certificate, stock, or other securities, or enter into any contracts (except contracts in respect of corporate affairs and property not taken under Federal control), or agree to pay interest on its debt at a higher rate, or for rent of leased roads and properties a larger amount than the rates and amounts payable as of or required by contracts in force on December 31, 1917. The company may, however, procure the authentication and delivery to it under any mortgage or trust deed or agreement in force December 31, 1917, of bonds or notes issuable thereunder in respect of additions, betterments, extensions, and equipment, or for refunding purposes.

(d) Upon the cost of additions and betterments, less retirements in connection therewith, and upon the cost of road extensions made to the property of the company during Federal control the Director General shall, from the completion of the work, pay the company a reasonable rate of interest, to be fixed by him on each occasion. In fixing such rate or rates he may take into account not merely the value of money but all pertinent facts and circumstances, whether the money was used derived from loans or otherwise, provided that to the extent that the money is advanced by the Director General or is obtained by the company from loans or from the proceeds of securities the rate or rates shall be the same as that charged by the Director General for loans to the company, or to other companies, of similar credit.

(e) From its compensation so received or from other income, if adequate for the purpose, the company shall make all payments of interest, rents (other than the equipment rents, joint facility rents, and rents classified as operating expenses mentioned in paragraph (j) of section 4 hereof), and other sums necessary to prevent a default under any mortgage or lease of any of the property described in paragraph (c) of section 2 hereof; and if at any time during Federal control the company, by virtue of any change in the right of possession (subject to the rights of the United States) to any of said property or otherwise, shall no longer be entitled as between itself and any other person or corporation to receive the entire compensation herein provided, such compensation shall be apportioned and paid, as between the parties entitled thereto, as justice and right may require.

SECTION 8.—CLAIMS FOR LOSSES ON ADDITIONS, ETC.

SEC. 8. (a) Prompt notice in writing, except as provided in paragraph (d) of this section, shall be given the company of the making or ordering of any additions, betterments, or road extensions, including terminals, motive power, cars, or other equipment, to or for the property of the company costing more than $1,000, with an estimate

of the cost thereof. Such notice shall be given before the beginning of the work or the acquisition of the property whenever in the judgment of the Director General it is practicable to do so. Within a reasonable time after the completion of the work or the acquisition of the property a written statement of the final cost thereof shall be given the company. There shall be furnished the company, as soon as practicable after the end of each month, a written statement of all expenditures estimated to cost $1,000 or less chargeable to investment in road and equipment made during the month, with a brief description of the work done or of the property acquired; and such statement shall constitute all the notice of additions and betterments costing $1,000 or less required by (*b*) and (*c*) of this section. The notices provided in this paragraph may be given to the president of the company unless the company designates some officer to receive the same, in which event the notice shall be given to such other officer.

(*b*) Any claim of the company for loss accruing to it by reason of expenditures for additions and betterments made to the property of the company during Federal control in connection with or as a part of the work of maintaining, repairing, and renewing the company's property and chargeable under the accounting rules of the commission in force December 31, 1917, to investment in road and equipment, except such expenditures as are incurred in connection with the replacement of buildings and structures in new locations, may be determined by agreement between the Director General and the company, or, failing such agreement as to the fact or amount of such loss, the question at issue may, upon the application of either party at any time after the filing of the statement of claim hereinafter referred to, be ascertained in the manner provided in section 3 of the Federal control act: *Provided, however*, That no loss shall be claimed by the company and no money shall be due to it in respect of such additions and betterments upon the ground that the actual cost thereof at the time of construction was greater than under other market and commercial conditions: and for the purpose of determining such controversy the amount paid for any addition or betterment shall be deemed the fair and reasonable cost thereof and shall be taken as the basis for such determination; nor unless the company, within 60 days of notice to it that the work will be done, shall give the Director General notice of objection thereto and shall file with the Director General a statement of its claim within 90 days after notice of the completion of the work.

(*c*) Any claim of the company for loss accruing to it by reason of any additions and betterments which are not made in connection with or as a part of the work of maintaining, repairing, and renewing the company's property, or accruing to it in connection with maintenance in the replacement of buildings and structures in a new locations, or by reason of road extensions, terminals, motive power, cars, or other equipment made to or provided for the property of the company during Federal control may be determined by agreement between the Director General and the company, or, failing such agreement as to the fact or amount of such loss, may, by proceedings instituted not later than six months after the end of Federal control, be ascertained in the manner provided in section 3 of the Federal control act: *Provided, however*, That no loss shall be claimed by the company and no money shall be due to it in respect to such additions, betterments, road extensions, terminals, motive power, cars, or other equipment mentioned in this paragraph upon the ground that the actual cost thereof at the time of construction or acquisition was greater than under other market and commercial conditions; and for the purpose of determining such controversy the amount paid for any additions, betterments, road extensions, terminals, motive power, cars, or other equipment shall be deemed the fair and reasonable cost thereof and shall be taken as the basis for such determination, nor unless within 60 days after notice to the company of such construction or acquisition written notice is given to the Director General by the company that it will claim a loss in respect thereof. With and as a part of such notice the company shall state its objections to such construction or acquisition as far as reasonably practicable at the time. Nothing in this agreement shall be construed as barring the United States from contending that no loss within the meaning of the Federal control act accrued to the company by reason of any additions, betterments, or road extensions made during Federal control by order or approval of the Director General if it is made to appear that the company itself but for Federal control should in the exercise of sound judgment have made such addition, betterment, or road extension.

(*d*) Where additions, betterments, or road extensions or terminals, motive power cars, or other equipment have been made to or provided for the property of the company during Federal control but prior to the execution of this agreement, the director general shall not be required to give the notice thereof provided for in paragraph (*a*) of this section and notice by the company of any claim of loss in respect thereto may be given the director general within 90 days after the execution hereof; and such

claims shall thereafter be proceeded with in the manner provided in paragraph (*b*) or paragraph (*c*) of this section, as the case may be.

(*e*) The director general shall reimburse the company for the amount of loss ascertained under this section with a proper adjustment of interest thereon.

(*f*) The director general shall not acquire any motive power, cars, or other equipment at the expense, or on the credit, of the company in excess of what in his judgment is necessary, in addition to its then existing equipment, to provide for the traffic requirements of its own system of transportation; but this provision shall not prevent the director general, after the acquisition of such equipment, from using the same, or any part thereof, on the line of any other transportation system operated by him.

SECTION 9.—FINAL ACCOUNTING.

SEC. 9. (*a*) At the end of Federal control all the property described in paragraph (*a*) of section 2 hereof shall be returned to the company, together with all repairs, renewals, additions, betterments, replacements, and road extensions thereto which have been made during Federal control, except as any part thereof may have been destroyed or retired and not replaced, in which case the provisions of section 5 hereof shall govern and except that the director general shall not be obliged to restore or replace property destroyed or damaged by the acts of public enemies.

(*b*) At the end of Federal control the director general shall return to the company all uncollected accounts received by him from the company and also materials and supplies equal in quantity, quality, and relative usefulness to that of the materials and supplies which he received and to the extent that the director general does not return such materials and supplies he shall account for the same at prices prevailing at the end of Federal control. To the extent that the company receives materials and supplies in excess of those delivered by it to the director general it shall account for the same at the prices prevailing at the end of Federal control, and the balance shall be adjusted in cash.

(*c*) The total amount of the account "Net balance receivable from agents and conductors" at the end of Federal control may be turned over by the director general to the company. He may also turn over all assets which have accrued out of operation; and the company shall to the extent of the cash received or realized from such assets, pay, and charge to the director general all expenses arising out of railway operations during Federal control, including reparation and other claims, and may, unless objection is made by the director general, pay and charge to him any such expenses including reparation and other claims in excess of the cash so received or realized. On the first day of the third month following the termination of Federal control an accounting between the parties shall be had, and so on the first of each third month thereafter. Any balance found due either party shall be payable as of the date on which the account is stated and shall bear interest until paid.

(*d*) At the end of Federal control there shall be paid to the company any balance then remaining unpaid of the cash received from the Company at the beginning of or during Federal control, together with any unpaid interest which may have accrued upon the same. There shall also be paid to the company any funds created under the provisions of this agreement, except to the extent that such funds may have been properly used under this agreement.

(*e*) Wherever under any provision of this section there is to be an adjustment of interest, it shall be at the rate of 5 per cent per annum unless the parties shall in any case agree on a different rate.

(*f*) After Federal control no claim by or against the director general shall be settled by the company against the written objection of the director general or the Attorney General of the United States. The conduct of all litigation before any court or commission arising out of such disputed claims or out of operations during Federal control shall be in charge of the company's legal force and the expense thereof shall be paid by the company; but the director general or the Attorney General may, at the expense of the United States, employ special counsel in connection with any such litigation.

EXECUTION.

In witness whereof, these presents have on the day and year first above written been duly signed, sealed, and delivered by Walker D. Hines, Director General of Railroads, and duly signed, sealed, and delivered by the ———, by its president, attested by its secretary, with its corporate seal hereto affixed, such execution and delivery on the part of the company having been duly authorized and directed by a vote of the board of directors at a meeting duly convened and held on the ——— day of ———, 1918, which action on the part of the board of directors had been duly authorized by a vote

of the stockholders of the company at a meeting duly convened and held on the —— day of ——, 1918, certificates of which meetings, duly attested by the company's secretary, have been lodged with the director general.

—— ——,
Director General of Railroads.

By —— ——,
President.

Attest:

—— ——,
Secretary.

OPERATION OF CARRIERS BY RAILROAD COMPANIES AS AGENTS OF GOVERNMENT—FEDERAL OPERATION DIRECT AND REORGANIZATION.

The CHAIRMAN. During the first three months of the railroad administration, the carriers operated the roads as agents of the Government.

Mr. HINES. That condition continued until about the end of May. Along in the month of May, Director General McAdoo transferred the operation of the properties from the corporations to Federal managers appointed by him, and thereby brought about a separation between the corporate management and the Federal operating management, but up to that time the corporations themselves through their presidents and other corporate officers operated the properties as agents of the Director General.

The CHAIRMAN. When you started in with the actual physical management of the properties, what sort of organization did you create? Was it based upon the character of organization that the railroads had maintained?

Mr. HINES. Yes, sir. We had as the operating head of each railroad a Federal manager, and in the case of some of the smaller railroads we put in what was called a general manager, but for the typical railroads the operating head was a Federal manager who had under him the usual staff that the usual railroad company had. He had a general manager in charge of operations, a traffic manager in charge of traffic matters, his auditor or controller in charge of accounting, and a treasurer in charge of financial matters. We simply preserved the ordinary scheme of railroad management, but all of those officers became responsible to the Federal manager, and through him to the regional director and the director general instead of being responsible in any way whatever to the corporation or the officers of the corporation. Those Federal managers were required to separate themselves from any official connection they had with the corporations, and thereby was brought about an undivided allegiance, so far as such arrangements could create it, to the director general.

The CHAIRMAN. Prior to this taking over of the physical management, I presume that you paid, as a part of your operating expenses, the expenses that the railroads bore in salaries and other administrative expenses in connection with the running of the railroads?

Mr. HINES. Mr. Prouty, my understanding is that up to April 1 we paid the salaries of the corporation officers, but I am not sure whether we paid them between April 1 and the date that the Federal managers were appointed or not.

Mr. PROUTY. That was all handled by the corporations. I do not think we did pay the salaries of all officials up to the 1st of April.

My recollection is that we did not. We paid certain corporate expenses, and possibly we may have paid more. I think there were some salaries that were not paid previous to that time.

Mr. HINES. Under the contract itself, this readjustment of operating expenses went back to January 1. The contract contains a provision that the director general is not responsible for certain corporate expenses, as I now recall.

Mr. PARKER. I do not recall that particular provision, but I think it does not go back to January 1. My understanding is that the director general issued an order that from April 1 he would not permit the charging of certain items to the operating expenses.

Mr. HINES. On March 18 the Director General issued Circular No. 10, which indicated that the question was under consideration as to whether what might be regarded as those expenses which were connected with the general corporate functions, as distinguished from operating functions, should be borne by the Government, and he stipulated in that circular that if a carrier claimed that such expenses should be charged to the Government, it should present a statement, and that on and after April 1, 1918, such expenses should cease to be charged against operating income, except in so far as the same should be expressly authorized after evidence should have been considered as provided therein. That is why I had the date of April 1 in mind, because we felt that until that date that we would not undertake to reconstruct that matter, but it was reconstructed from that date on.

Mr. SISSON. In the payment of those officials' salaries, did you eliminate any officials that the railroads had at the time you took them over?

Mr. HINES. When we put the Federal managers in charge, we eliminated the salaries of the general officers from that time on and the Government did not pay them at all.

Mr. SISSON. For example, there were the positions that were held under the railroads' management in their freight solicitations and each road would have its soliciting freight agents throughout the country. Was that expense continued under the Government control?

Mr. HINES. A very large number of agents who solicited freight were discontinued in that capacity, because there was no necessity for soliciting freight.

PAYMENT OF SALARIES, ETC., OF OFFICIALS OF RAILROADS.

The CHAIRMAN. I find in paragraph f, under section 4, a provision apparently undertaking to deal largely with this situation, and which reads as follows:

All salaries and expenditures incurred by the company during Federal control, for purposes which relate to the existence and maintenance of the corporation, or to the properties of the company not taken over by the President, or to negotiations, contracts, valuations, or any business controversy with the Government or any branch thereof, and which are not specially authorized by the director general, shall be borne by the company; except that the expenses of valuation, being made by the commission to the extent that they are, in the opinion of the director general, necessary to comply with the valuation orders and other requirements of the commission and to the cooperation of the company in the making of such valuation, shall be paid by the director general as a part of railway operating expenses. If the company is dissatisfied with the ruling of the director general, it may appeal to the commission, whose decision shall be final.

While that does not affirmatively state it, it would seem to impliedly state that expenses other than those enumerated here were to be borne by the Railroad Administration.

Mr. HINES. That clearly is the policy, and that is the provision that I had in mind when I asked Mr. Parker that question. The question I was in doubt about was whether under that provision, in the actual adjustment of the operating expenses, we did charge back to the companies these outside salaries and expenditures, clear back to January 1, or only to April 1, the date mentioned in this circular.

Mr. PARKER. It is only from April 1. Sometime ago Judge Prouty raised the question of whether circular No. 10, from which you have just read, should be construed so as to permit the charge being made to April 1. The matter was discussed by the staff and it was decided that the Director General's view when he issued the circular was that it should commence April 1, and should not be charged back of that date.

Mr. HINES. So that is the practical construction of this paragraph f of section 4; that is, that it applies from April 1, and that controls the matter.

The CHAIRMAN. I have not examined the contract carefully, and, of course, is speaks for itself, and what we may say is necessarily subject to the binding effect of the contract, but I was just going to ask you, is it your understanding that the contract, not only as to compensation but generally, is retroactive as of January 1?

Mr. HINES. Yes, sir. They entered into this contract on the theory that it controlled the relations from January 1, 1918. I might say that this was one of the points that was contested down to the last by the corporations. They insisted that the Railroad Administration ought to assume all of these operating and other corporate expenses, because they were included in the operating expenses during the test period.

ECONOMIES EFFECTED BY REORGANIZATION.

The CHAIRMAN. In taking over the active management, presumably, you did undertake to eliminate a lot of activities that were incident to competitive conditions under separate private ownership, and which ceased to have any reason for existing when the Government took charge of the systems as a whole.

Mr. HINES. Yes, sir.

The CHAIRMAN. Have you any idea as to what economies, if any, were effected by the elimination of those various activities?

Mr. HINES. Yes, sir; we made some figures on that. It consists of several branches and in some the estimates can be made a quite close approximation, while in others it is more of a mere estimate. For example, a great deal of advertising was discontinued, and the so-called outside soliciting forces were discontinued, except where they rendered some other necessary function that ought to continue to be rendered. In addition to those things that can be pretty closely approximated, the administration gave attention to the cutting out of circuitous routing of traffic. There was a great deal of that for purely competitive reasons, and by putting the traffic over short routes instead of circuitous lines there was a large saving in

car-miles. There was also quite a consolidation of terminal operations, with a good deal of saving in terminal expenses. I understand that the report of the regional directors for 1918 summarizes that, and indicates a saving of about $91,000,000.

COUNTRY DIVIDED INTO SEVEN REGIONS.

The CHAIRMAN. How many regions have you divided the country into?

Mr. HINES. At the beginning we divided it into three regions, corresponding to the three classification territories. The territory north of the Ohio and Potomac and east of Chicago and the Mississippi River was called the Eastern Region; the territory west of Chicago and the Mississippi River was called the Western Region, and the territory east of the Mississippi River and south of the Ohio and Potomac Rivers was called the Southern Region. The Norfolk & Western and the Chesapeake & Ohio, although being south of the Ohio and Potomac Rivers, were put in the Eastern Region, because they had always been regarded as trunk-line railroads. Later on, in order to get closer control over the operations, the country was further divided. The part of the country where the very greatest difficulty existed in the handling of war supplies was served by the Pennsylvania, the Baltimore & Ohio, and the Reading, and a separate region was created consisting of the Pennsylvania and B. & O. lines east of the Ohio River, which was called the Allegheny Region, and the Reading, Jersey Central, and Western Maryland lines were put in that region. The parts of the Pennsylvania and B. & O. lines west of the Ohio River were left in the Eastern Region, because the policy during the acute period of the war was not to bring any through traffic by those lines at all from the West, and because the capacity of those lines was absorbed in handling fuel, raw materials, and finished products for the war activities in the States of Pennsylvania, Delaware, and New Jersey, where there was an intense concentration of war production. So that left the western end of those lines in the so-called Eastern Region.

Since hostilities have ceased we have put in the Allegheny region, the western end of the Pennsylvania and of the Baltimore & Ohio, so that the Allegheny region now contains all of those two systems, and also the Reading, Jersey Central, and Western Maryland. On account of the very great importance of handling coal traffic from the West Virginia coal fields to Hampton Roads under the most intensive supervision, a separate region was created called the Pocahontas region, which consists of the Norfolk & Western, the Chesapeake & Ohio, and the Virginian Railroads. The Southern region remains practically as it was. Then, the country west of Chicago and the Mississippi River, which we started out with as a single region, was divided into three regions, the Northwestern region, of which the Great Northern, Northern Pacific, and St. Paul roads were the most striking features; the central western region, which consisted of the Burlington, Union Pacific, Denver & Rio Grande, and Santa Fe, as the principal features, and the southwestern region, which consisted of the great variety of railroads now operating from St. Louis into the Southwest, covering Arkansas, Louisiana, and Texas. So that, as a result of the further division, we now have seven regions, whereas we started out with three.

Operation of Railroads Since Signing of Armistice.

The Chairman. Presumably during the war you operated the railroads primarily with the idea of dealing with the acute situation that existed in regard to the movement of freight and to relieve congestion and to supply those governmental needs that were most urgent and insistent. Now, since the war, are you undertaking to operate the railroads from the standpoint of revenues from any of the roads as such, or simply from the standpoint of total revenues and economies in the movement of freight, irrespective of the effect that it might have upon the traffic of particular lines as they existed under private ownership?

Mr. Hines. Since the armistice was signed we have entered on the policy of trying to get the transportation service back to the normal basis which existed before the war, and by that I mean as to the convenience and adequacy of the service, the purpose being to meet that where there seemed to be the necessity for it. Now, primarily our purpose still is to view the operations as a whole and to try to get the best results, but it is still true that in going back to approximately the normal ante bellum basis of operation we do have to give more consideration to what was done on a particular railroad than we did during the war period; also, realizing the probability that in the reasonably near future the railroads may go back, we are endeavoring to pursue a policy of considerateness in dealing with that question, so as not to needlessly interfere with the sort of traffic that would be handled by the corporation if it were in control of its own lines. Therefore there is a tendency back to those normal conditions.

The Chairman. Are the shippers of the country being left free in the matter of routing their freight?

Mr. Hines. Mr. Prouty, can you answer that?

Mr. Prouty. Theoretically they are not, but as a practical matter in most cases they are. My understanding is that ordinarily the shipper has the right to route his traffic, but usually they do not care anything about it. All that he asks is a certain terminal delivery, and we give him that delivery, and that usually satisfies him. However, there have been some cases as in the routing of perishable commodities, such as vegetables, citrus fruits, etc., from Florida, where the shipper has insisted on routing the traffic through a certain Ohio River gate, and in one case that was denied. However, subsequently, the whole subject was reconsidered, and now he has that privilege. Generally speaking, I would say that as a practical matter he has that right.

Mr. Hines. I would say that under unified control he has much less concern in it than he would have under private control, because then some soliciting agent would go to him and ask him for the traffic, and when that was done the traffic was so routed as to give the traffic to the road of the soliciting agent. Then again, under private control the matter of terminal delivery depended to a considerable extent upon what railroad carried the traffic to destination, but under unified control the terminals are all one, so that no matter how it is sent, any terminal delivery can be given that is desired, generally speaking.

The Chairman. There is still the further inducement that the soliciting agent of the road in order to hold that business would be

at some pains to follow the freight to see that it reached destination within the proper time, and, therefore, the shipper from his experience with particular roads might give or refuse his business to particular lines because of his previous experience as to the character of service he was going to get.

Mr. HINES. Yes, sir; that is true. That would give him an interest in having it sent a certain way.

The CHAIRMAN. But now he has to take "pot luck" with the Government.

Mr. HINES. The Government is in a position to give him the same sort of delivery, whether it goes by one way or another, so that the selection of a particular line does not cut any figure.

Mr. PROUTY. I believe you could also say that, while during the war there was no attention paid to it, attention is now being given to that very matter, and the Railroad Administration is trying to advise the shipper as to the location of his freight and to give him the information that he formerly got from the soliciting agents. A method has been worked out by which some one can be designated to whom he can go and get that information.

Mr. SISSON. Do you think that the incentive of prompt and efficient delivery is as great under Government control as under private control?

Mr. HINES. A company under private control, if it was in a competitive business, undoubtedly had every incentive of self-interest to make the best showing that it could. I am not claiming that there has been a precise substitute for that self-interest, but there is a very earnest desire on the part of the regional directors, and I believe on the part of the Federal managers, to bring the railroads back to the normal peace-time standard, and to meet what the shipping public has been educated to expect. As we get further away from the war we will get better results in that way.

The CHAIRMAN. On the other hand, where the railroad company had a monopoly of certain freight movements, it could be, and frequently was, as independent as it chose to be.

Mr. HINES. Yes, sir; I think that is true, too.

PASSENGER RATES.

The CHAIRMAN. You presumably fixed some of your passenger rates with the idea of controlling the movement of passengers so as to relieve the roads of the burden that passenger traffic put upon them during a time when the Government needs for freight movement made it not desirable to give free scope to the movement of peoples. That reason, presumably, has passed away. Are you proposing to adjust passenger service and rates so as to bring them back to normal?

Mr. HINES. So far as passenger rates are concerned, I should say that the only thing we did which could be regarded as intended to discourage passenger travel was charging an additional half cent a mile for travel in Pullman cars. That is, the cars were so badly crowded that we did put on a half cent a mile. That was taken off in December. The 3 cents a mile which was made the uniform rate for passenger travel, involving an increase in a great many of the Eastern States and some of the Western States, remains the standard rate. There is no purpose to reduce that, and really the 3 cents that the

railroad company gets now has no more purchasing power than the 2 cents did before the war. There is no thought at present of reducing the 3-cent passenger rate.

The CHAIRMAN. Is there any thought of letting the rate bear some relationship to the volume of passenger traffic—manifestly a 3-cent rate in some places would yield a very great loss and in some places a very great profit—or is it the policy of the Railroad Administration to standardize that matter over the country at large on a similar basis with the Postal Service?

Mr. HINES. It is practically a standard 3-cent rate throughout the country at the present time, except on a few branch lines where the rate is higher. Those few branch-line rates were not reduced, and so it is approximately a standard rate.

The CHAIRMAN. Has it been determined that that policy shall be maintained as against special rates that were given by the roads at various periods of time for the encouragement of passenger travel.

Mr. HINES. During the war all special rates were cut out, but that policy will not continue, because by giving special rates an additional passenger volume can be encouraged which it is profitable to carry. Our plan is to try to get back to normal conditions.

Mr. VARE. Mr. Hines, between Philadelphia and Washington, for instance, we do not have any excursion rates; it is a flat charge.

Mr. HINES. That is true.

Mr. VARE. Recently I ordered some tickets to Florida and I was told that there was a saving of about 10 per cent if I bought return tickets. Why is that policy carried out on one road below Washington and not carried out above Washington?

Mr. HINES. I am not familiar with the particular case; but, broadly, I should say the excursion rate would be on passenger travel which would be definitely encouraged by giving it, and between here and Philadelphia my first impression would be that there would probably be no business reason for giving excursion rates. My impression is that the railroads under private management got away from those reduced-rate tickets between Philadelphia and Washington before Government control, but I am speaking just offhand about that. I will be glad to look into that if you are interested, but I can not give you a really satisfactory answer.

Mr. VARE. That comes to me at this time from my personal experience.

Mr. HINES. It would be determined purely on the question of whether the business hoped to get an increased traffic by giving the excursion rate.

COMMODITY RATES.

Mr. SISSON. We had in all the Southern States what they called a commodity rate granted frequently by the railroads without the State commission intervening, especially in reference to fruits and vegetables and in reference to gravel for building local roads. The clerk of our railroad commission was up here the other day, and I asked him somewhat about the increase of the commodity rates. For instance, we had a commodity rate on gravel that has been increased about 150 per cent. A great many of the counties had issued bonds and were having gravel hauled to surface roads. Of

course, after we got into the war not only was the work stopped, because we were not permitted to get the cars, but some of the commodity rates on vegetables were increased very much more than that. Is there any intention on the part of the railroad management to go back to those commodity rates for the purpose of encouraging the building of good roads and the development of the food-producing areas contiguous to the roads?

Mr. HINES. I can not speak in detail about that. Certainly our general policy is to have rates that will develop traffic. It must be remembered, though, that to a large extent the increase in rates merely reflects the universal diminution in the purchasing power of money. The increased rate now is really no higher, when you consider what the money the railroad gets will buy, than was the rate before.

Mr. SISSON. You will appreciate at once the condition that many of the contractors in the States were in. They had contracts to build a certain number of roads, put the surface on at a certain figure. Of course, that was figured on the freight rate on gravel at the time that the contract was entered into. The inability on the part of the contractor to get gravel caused the surfacing of the roadbed to cease. Then, with the increase in the freight rate of 150 per cent it is utterly impossible for those gentlemen, unless they are released from the contracts, without bankruptcy to comply with the contracts.

Mr. HINES. I should think if they made a contract before the war to do that work at a fixed price the increased price of labor would bankrupt them anyhow.

Mr. SISSON. It is the completion of a road from Memphis to New Orleans through the central part of our State. It was ready for surfacing and they did actually begin surfacing some of the road. Then they were denied cars, and the result is that roadbed is being destroyed.

Mr. HINES. During the war we had to discourage the use of open-top cars for road materials, because they were all needed for fuel.

Mr. SISSON. The explanation made to our people was that the Government needed the cars, that the Government's need of cars was so great that it was not possible to do otherwise.

Mr. HINES. That was true during the war.

Mr. SISSON. To stop the use of the cars. You issued an order after that permitting the use of the cars, but the rate is so much greater than the rate at the time the contract was made that that single item would bankrupt them.

Mr. HINES. Undoubtedly under peace conditions it is particularly the intention of the Railroad Administration to stimulate road building and every other form of activity that is possible. In doing that, I think it is important that the Railroad Administration should not be expected to disregard entirely the diminished purchasing power of a dollar, and if they now handled traffic at the old rate they would handle it substantially at a less rate.

Mr. SISSON. I think that is true, but in view of the fact that the contracts were entered into in sections near these gravel pits, this commodity rate on gravel seems to do the contractors and the people generally a very great injury.

Mr. HINES. I can see how that must be an unfortunate case. The whole scheme of rate making in this country is that the rates must

be uniform. You can not make one rate to one man because he had a contract involving the rate and another rate to another man.

Mr. SISSON. That commodity rate was made by the Illinois Central voluntarily as an encouragement to the building of roads?

Mr. HINES. Yes, sir.

Mr. SISSON. They conducted a campaign themselves along with the county officials and people were induced to buy the bonds. We are in this condition—the road is not completed and there is no remedy.

Mr. HINES. If you will send me a letter in regard to that particular case, I will look into it.

Mr. SISSON. I shall be glad to do so.

OPERATION OF ROADS FOR CALENDAR YEAR 1918—WORKING FUND FOR RAILROADS.

The CHAIRMAN. Mr. Hines, in presenting your financial statement you undertook to explain a need at this time for $381,000,000 in connection with the operation of the roads for the calendar year 1918 by stating that among other items taking moneys was the one of $247,000,000 necessary as a working fund for the railroads. What was the amount, if you know, that the railroads used in their operations? Did it amount to as much or to a less sum?

Mr. HINES. I should say it amounted to more. When the question was under discussion as to whether the railroads should be required to furnish a working capital, I think it was generally agreed that if a working capital was furnished it should be not less than one month's operating expenses, which would be about $325,000,000, broadly speaking. I think the view prevailed that a railroad company needed to have on hand enough cash to pay its expenses for a month and if it did not have that, that the payment of its bills would be very badly slowed down.

The CHAIRMAN. It is your idea that by having one pool instead of many pools, which manifestly you had to have when the railroads were operated as separate organizations, you do not require quite as great a volume of fluid money?

Mr. HINES. I think we can get along with somewhat less.

The CHAIRMAN. Do you estimate that you will have to continue at this same rate of $247,000,000 as a working capital?

Mr. HINES. We will need approximately that much right along. Of course, it will vary a little one way or the other, but approximately we should have that much until Federal control ends. Then that money will be released.

The CHAIRMAN. You stated, I believe, that as a reason why the railroads were not required to furnish a working capital along with the properties which they turned over was the actual fact that as to many roads they did not have it, if they paid their bills, and that as to those roads that did have it, if required of them, it lessened to that extent their ability to take care of bills that might come due subsequently in connection with betterments, rolling stock, and so forth?

Mr. HINES. Yes, sir; that was my general proposition. I might illustrate that in this way: The company that I used to be connected with was the Atchison. It had at the beginning of Federal con-

trol an exceptionally large amount of cash. It had always been its policy to carry a large amount of cash. In taking care of its capital obligations it has about used up all of that cash—in other words, taking care of its capital expenditures and obligations since Government control began. If the Atchison had turned over to the Government a very large part of the cash it had as of January a year ago, it would have followed that it would not have had that cash to pay on these things during the year. In that particular case they might have been able to borrow it. So, broadly speaking, it was almost as broad as it was long. What we left to the companies that had any surplus enabled them to that small extent to pay us back for the money that we had spent for them.

AGENTS' AND CONDUCTORS' BALANCES.

The CHAIRMAN. Apparently you took over from the railroads $154,000,000 as the agents' and conductors' balances?

Mr. HINES. As a matter of fact, it was about $140,000,000 on January 1, 1918. The amount has increased during the year. December 31, 1918, it was about $154,000,000. December 31, 1917, there was about $140,000,000. It was $140,000,000 that we took over.

The CHAIRMAN. Do the railroads claim and do you concede their claim for a repayment in this statement of those balances?

Mr. HINES. In working out the standard contract everybody seemed to settle down to the conclusion that that was a current asset for which they were entitled to credit.

The CHAIRMAN. Why?

Mr. HINES. That they had their current liabilities to meet and the only way they could meet them was with their current assets, and the current liabilities were largely incurred in many cases to pay for the materials and supplies which we took over, and many companies had bought materials and supplies and had not paid for them. We took over the materials and supplies and left them with the bills to pay. That was a part of their current liabilities. If we took the current assets away from them a very difficult situation would have been created in paying their current liabilities.

The CHAIRMAN. In point of fact, they did not pay all of their current liabilities, but the Railroad Administration did?

Mr. HINES. That was perfectly true; they did not have any money to pay them with.

The CHAIRMAN. If I understand your statement you figure as of this date that you have tied up, irrespective of what you got from the railroads, $154,000,000 in conductors' and agents' balances?

Mr. HINES. As of December, 1918.

The CHAIRMAN. I mean as of December, 1918.

Mr. HINES. Yes, sir.

ADVANCES TO RAILROADS FOR MATERIALS AND SUPPLIES.

The CHAIRMAN. Then they turned over materials to you which you advanced them cash on which you figure at $100,000,000?

Mr. HINES. Again, that material which they turned over to us was much in excess of that, but that grows out of a provision in the con-

tract which, as all the other provisions, is the result of these long negotiations and discussions, that where we had paid certain amounts for them on their current liabilities we would not require a payment if the materials and supplies that we had received from them were a certain figure.

The CHAIRMAN. Will you please point to that provision in the contract, so it can be made a little more concrete?

Mr. HINES. In section 7 of the contract with respect to compensation there is a provision that there should be deductions from the compensation for certain purposes and then there is this limitation:

Nor shall such deduction be made in respect to additions and betterments which are for war purposes and not for the normal development of the company, nor in respect of road extensions.

Then comes the part—

Nor in respect of amounts due under paragraphs (*a*) and (*d*) of section four hereof, in cases where the current assets, including materials and supplies, of the company taken over by the director general under the provisions of this agreement clearly exceed the current liabilities of the company paid or assumed by the director general under said section.

By virtue of that provision that in cases where the current assets, including materials and supplies, clearly exceed the current liabilities with the result that we have a quick current asset of that sort, we will not deduct from their compensation certain amounts which they owe us, because of payments that we made on their account. That represents one of the numerous questions of negotiation that was worked out between the companies and the Railroad Administration in order to accomplish a reasonably fair working basis, and the result of that is the estimated expenditure of $100,000,000, because we are temporarily prevented from collecting from the companies the amounts that we have paid on their account.

The CHAIRMAN. As I understand your statement, your conductors' balances and your advances made to the railroads account for $254,000,000, which constitutes an ultimate asset?

Mr. HINES. Yes.

The CHAIRMAN. But out of that asset or some other asset you would have to pay bills payable that were not settled as of the first of this calendar year, although due at that time, of $162,000,000, so that you would get a net asset, ultimately to come back to the Government, of $92,000,000?

Mr. HINES. That is it, exactly.

The CHAIRMAN. Now, in determining these advances of $100,000,000 to the railroads, what controlled you, the necessity of the situation for paying bills for the railroads that over and beyond assets you got from them netted this $100,000,000?

Mr. HINES. I will state my general understanding, and I would be glad to get it supplemented by Mr. Prouty, who has perhaps a more detailed knowledge of it. My understanding is that very largely those transactions took place near the beginning of Federal control. You see here was a situation where almost overnight the biggest single business in the country was transferred from one concern to another. The bills were still to be paid and there were bills still to be collected, and there could not be physically any instantaneous separation between the old concern and the new. The result was that the company, as agent for the director general,

kept on doing business for the time being just as it did when it was acting for itself. It paid its bills as they came in and collected bills as they came in. It was regarded, however, as being done as agent for the Government. The result was that by the time we could get any clear-cut separation, most of these transactions had taken place, and the result was that in the case of some companies they owed the Government money. In the case of other companies the Government owed the company money.

Now, in cases where the company owed the Government money and where the materials and supplies taken over constituted this clear asset which could be regarded as collateral, the contract provided that the Government would not make the company pay that back for the time being; and the practical necessity, as Mr. Prouty pointed out, was that the company, generally speaking, did not have the money with which to do it. You see, the company, on and after January 1, 1918, was every day getting in these revenues which belonged to the Government, and also collecting its own bills, and also paying bills against the Government and against itself. It was all being done virtually out of a common treasury for the moment, and the upshot of those thousands of transactions back and forth resulted in some cases in a balance which the company owed the Government and in other cases in a balance which the Government owed the company; and that happened very largely right at the beginning of Federal control, in what you might call the transition period, and these balances one way or the other are largely things of that sort which happened then, before there was any opportunity to have any independent consideration as to whether the bill ought to be paid by the Government or not; but in practice it was a bill that in the common interests ought to be paid, and there was only one fund from which it could be paid.

The CHAIRMAN. That, of course, accounts for how the balance came to be $100,000,000 in the way of an advance by the Government, but it does not necessarily say that in now striking a balance, when you are required to pay rentals, that you should not credit the fund that you owe the railroad by this previous advance.

Mr. HINES. That comes about by virtue of the provision in the contract that I called your attention to, and that, in turn, was the outgrowth of this discussion. The railroads pointed out that they simply did not have the cash with which to pay those things, and therefore they ought not to be deducted, and that the Government had materials and supplies which constituted a protection and a security, and therefore it was reasonable and proper not to make them pay through a reduction from compensation.

PROCESS OF DETERMINATION OF RAILROADS' INABILITY TO PAY.

The CHAIRMAN. Now I am coming to the thing which I have been wanting to reach all the time. By what process did you undertake to determine the fact, if it was a fact, when the railroads alleged their inability to pay?

Mr. HINES. Viewing the situation broadly, it was a fact that was clearly evidenced by the state of their accounts of December 31 that their current assets were not as big as their current liabilities. Of

course, in any particular company that might not have been the case, but this was a standard provision adopted because it was believed on general principles to be reasonable when the Government had this adequate collateral to protect itself. Now, Mr. Prouty, perhaps I ought to have asked you at the outset to have made an explanation of that.

Mr. PROUTY. No, Mr. Hines, you have made it better than I could. This all happens, Mr. Chairman, in the accounting section, and that section provides that once in three months accounts shall be stated between the railroad and the Government. Sometimes the Government would owe the railroad and sometimes the railroad would owe the Government. The original section provided that whichever way that might be, payment should be made, and either had the right to call on the other for payment. We would pay the railroad if we owed them anything and the railroad would pay us if they owed us, but when we came to make up that section, Mr. Untermeyer, for example, came in and said, "Here, if you insist on payment from the railroad I represent, you bankrupt it. We can not make payment." So we said, "Very well; as long as your materials and supplies are sufficient so that we have in our hands undoubted security, and as long as you are willing to pay interest, we will allow that to stand." Now, that is the way this provision got in there, that the Government in its discretion was willing to desist from insisting on payment of that amount, but Mr. Untermeyer said, "We do not want to leave it to the discretion of the Government. We want to put it in the contract, so it was finally put in the contract.

The CHAIRMAN. If I understand you, it was put in the contract irrespective of the railroad's ability to pay or not to pay.

Mr. PROUTY. Yes; irrespective of the railroad's ability to pay or not to pay, although, as a practical matter, the indebtedness would only exist where the railroad was not able to pay.

Mr. HINES. This is true, as I undrestand it, and Mr. Prouty, I would like for you to correct me if you think I misconstrue it. After all, this provision in the contract is merely one which protects the company against having this deducted from its rental. Now, if the company has got assets with which it can pay without deducting it from its rental, we expect it to pay. In other words, it does not defer the thing absolutely, but it is estimated after everything is said and done ther will be about $100,000,000 of it as to which the companies will not be in position to pay unless we deduct it from the compensation, and if we deduct it from the compensation, we will interfere with their ability to pay their interest, taxes, etc., and the contract simply provides that we will not do that; but it is a debt that the company owes, and where the company is so situated so that it has or can raise the cash to pay it, we are in a position to say, "You raise the cash and pay it, although we have agreed not to deduct it from your rental."

The CHAIRMAN. Then, practically, it comes back to the question we discussed yesterday of the railroads insisting on and obtaining an agreement that guarantees to them money enough to pay their fixed charges in the way of interest, taxes, etc., and their dividends?

Mr. HINES. Well, not their dividends. This does not include a dividend proposition.

The CHAIRMAN. You can not separate them, can you?

Mr. HINES. I should say it is true that it is on the same basis as where they were asked to pay for additions and betterments. We are under no contractual obligation to protect their dividends, but we are under a practical obligation to try to do it if they use every effort to finance themselves.

The CHAIRMAN. But you can not offset this against what you owe them by the terms of the contract you have agreed on?

Mr. HINES. No; but I want to emphasize that I have definitely in mind that the position will be maintained throughout with the railroad companies that they must adopt every reasonable means to raise the money to pay what they owe the Government, and if they do not adopt every reasonable means to do it, we are entitled to deduct even as against their dividends.

Mr. PROUTY. And furthermore, Mr. Chairman, unless they have ample security so that the Government is perfectly protected the director general has the right to make the deduction, any way.

Mr. SISSON. In other words, the railroads that are able to pay back what they owe you, money which could go into the Treasury, will simply reduce the amount of bonds we will have to issue and not increase the indebtedness of the Government at this time of stress, so where they can do it, they ought to be called upon to pay the money at the earliest possible date.

Mr. HINES. In making our estimate of what we need, we have reduced, as we see it, the amount we do need to a minimum.

Mr. SISSON. Did you take into account any part of this $100,000,000 that they might be able to pay back?

Mr. HINES. This is the part we estimate they will not be able to pay back at the moment. It goes along with the $240,000,000 that we have invested for additions and betterments, which at the moment we do not see that we can get them to finance.

Mr. SISSON. I would assume from that that the $100,000,000 has been advanced to the railroads, as a rule, in the worst condition financially, because in taking up these accounts it has not been necessary to advance to roads which had a great many outstanding bills which were collectible, because those roads, if they constituted a large percentage of the $100,000,000 advanced, would be able to pay it back, so therefore it has been the roads that have been in bad condition that have absorbed the principal part of this $100,000,000.

Mr. PROUTY. That is right, sir, I think.

The CHAIRMAN. As I understand it, the whole $100,000,000 is made up of payments of bills for the railroads prior to the time we took them over.

Mr. HINES. Yes; it is the excess of that over the amount we collected for them.

The CHAIRMAN. Unquestionably.

Mr. PROUTY. Let us get this right. Not altogether, Mr. Hines. You understand that these Federal treasurers were acting for the corporation and for the director general both, and if interest was due on their obligations after the roads were taken over, they paid that interest without saying anything to anybody about it at first,

for a few weeks or a few months, or they were allowed to pay it. So that these advances are not all in payment of bills for materials and supplies.

The CHAIRMAN. I did not mean to give that impression by my statement. But they in no sense represent an affirmative obligation which the Government created in the way of a betterment.

Mr. PROUTY. No, sir.

The CHAIRMAN. They represent a liability previously incurred whether it had become due previously or not, either in the way of interest due or in the way of bills payable that the railroads owed; is not that true?

Mr. PROUTY. Well, now, I am not sure but that they might represent in some cases a betterment. They may have used their money for betterment purposes. Now, that may be distinguishable under this contract, but the question is going to be under the accounting provision at the end of the first three months, How much does the railroad company owe the Government and how much does the Government owe the railroad company?

The CHAIRMAN. I understand that that is the bookkeeping side of it, but I am trying to get underneath the bookkeeping phase of it. I am trying to find out what the character of obligations of the railroad it was you paid which over and above the moneys that they gave you represent $100,000,000.

Mr. PROUTY. They paid, because the two things were one—first, any bill which they paid which belonged to them to pay was charged to them in our accounting. If they paid for an addition and betterment, that would be charged to them. It would not be charged to us, but I believe under the contract additions and betterments are especially dealt with.

Mr. PARKER. The additions and betterments would not be under this item of open account.

Mr. HINES. Mr. Chairman, as bearing on this point, it is important, I think, to carry in mind the thought that at the time Federal control began the one great concern of the Government was to improve rather than to injure a very unstable and uncertain financial condition. In the President's proclamation taking over the railroads, the proclamation dated December 26, there was this provision:

> Regular dividends hitherto declared and maturing interest upon bonds, debentures, and other obligations may be paid in due course, and such regular dividends and interest may continue to be paid until and unless the said director shall, from time to time, otherwise by general or special orders determine, and subject to the approval of the director, the various carriers may agree upon and arrange for the renewal and extension of maturing obligations.

So that there was the idea right at the outset that here was an enormous, going concern that must be kept going, and the mere transition of possession must not interfere with the payment of interest that was maturing, and these amounts that were paid on behalf of the corporation really were paid in carrying out that policy. Now, the corporation owes it, and where the corporation can raise the money to pay it, it will be expected to pay it, but where it can not raise the money to pay it, and where its materials and supplies constitute an adequate collateral, then we agree not to deduct from the rental in order to pay it.

Mr. SISSON. Then under that clause, as the director general you would have the right, if you found any of these roads in a condition

to pay this money back, to have the money paid back by special order?

Mr. HINES. Under the contract which would now control, if the company was in position to pay, we would expect it to pay, and this represents the amount which at the moment we estimate the companies can not pay but which they will be able to pay later.

The CHAIRMAN. How do you arrive at a determination as to what the companies can or can not pay?

Mr. HINES. We have the $290,000,000 of additions and betterments which will be left after we have deducted the rental that we can deduct under the contract without interfering with dividends. We have the $100,000,000 of advances secured by materials and supplies. Now, here is the practical situation: The companies all over the country at this date, broadly speaking—and of course I can not deal with a separate company in a general statement—have a great many maturities to meet this year. Now, although they want assistance in meeting the maturities, my policy is going to be that they will have to meet their own maturities. They also have got to finance largely the additions and betterments that will be made in 1919.

Our belief is, looking at it as carefully as we can and trimming the thing down as much as we can, that if they meet their maturities, and if they meet a reasonable share of the additions and betterments made this year that they can not, between now and, say, the 1st of May or June, when the liberty loan is out of the way, finance any material part of these amounts. We are satisfied they have not got the cash on hand with which to do it. They would have to borrow the money, and we do not believe, broadly speaking, they can go out in the market at the moment and borrow it. Now, in some instances, perhaps, a company will be able to borrow it; and in another instance it may turn out that a company can not do as much as we are counting on its doing. So, the best judgment we can reach on it is that the assumptions we have given here represent all we can count on their doing and the minimum we can count on carrying.

The CHAIRMAN. What I am trying to get at are the processes that you go through in order to arrive at the conclusion which you have stated. Presumably what you must do is this, to cast your accounts as they relate to each railroad and to ascertain what you have made in the way of advances which are secured by material and what you have made in the way of betterments as against any particular road, and then you determine what that road's usable assets consist of; and that involves consideration of its bonded indebtedness, and if you still carry with it the idea of continuation of dividends, its dividend payments with its rentals and its general credit in the market, in order to determine whether or not that particular road is able either out of usable assets or out of its borrowing capacity to get money enough to repay you. Now, I am trying to find out how you a tually work out that process in individual cases and through what personalities.

Mr. HINES. If it is agreeable to you I am going to ask Mr. Eddy to explain that in detail. I just want to point this out as a general proposition, that right straight along, and especially since the armistice, we have been trying to get these companies to finance as rapidly as they can, and we propose to keep that up, and despite all that is

in prospect, the general conclusion has been forced on us that this represented the minimum we would take care of, knowing just what we have been able to accomplish and what seems in prospect now, but I would like Mr. Eddy to explain more in detail, because he has been charged with this problem of trying to get these companies to finance this proposition.

Mr. EDDY. As far as I am concerned this is the story: Until the 9th of January I was assistant general counsel connected with the Division of Law; on that date I was made associate director of the Division of Finance, associated with Mr. John Skelton Williams, and I was charged with the particular matter about which you ask, that is, the taking up of the accounts of each individual company for the purpose of finding out the exact situation with respect to those matters that would appear on our own books, might be shown by their own conditions or would be disclosed by their own books; what their maturities were going to be, what their floating debt is, and their other corporate requirements, with the end in view, when it was all over, of endeavoring to collect all of these amounts that we have tied up with the companies. That is going on, but it is not a matter that can be handled with great speed because, just taking the class one railroads, there are about 171 of them. Of course, I can not tell you very much about what went on previously, I mean, as to the process that was used in arriving at results, and as to the figures submitted I can not say any more than that they were bound to be estimates.

The CHAIRMAN. What do you admit as the legitimate liabilities that the railroads must meet and which, therefore, have to be provided for out of the rentals you owe them before you can make deductions for advances of any sort that may have been made?

Mr. EDDY. Well, we are governed as to that by the provisions of the contract.

The CHAIRMAN. I do not know that I quite understand you.

Mr. EDDY. Seven (*b*), of the contract is the controlling thing on that; that is, the amounts that may be deducted are specified in section 7 (*b*).

The CHAIRMAN. I take it that what you refer to is this language in the contract:

> That said power to deduct amounts due or accruing under paragraph (*b*) of section 5 hereof and the cost of additions and betterments not justly chargeable to the United States shall not be so exercised as to prevent the company from paying out the sums reasonably required to support its corporate organization, to keep up sinking funds for the company's debts required by contracts in force December 31, 1917, to pay its taxes to pay rents and other amounts (not chargeable to capital account) properly payable by the company for leased or operated roads and properties, to pay interest which has heretofore been regularly paid by the company, and interest on loans issued during Federal control and approved by the director general nor shall such deduction be made in respect of additions and betterments which are for war purposes and not for the normal development of the company, nor in respect of road extensions nor in respect of amounts due under paragraphs (*a*) and (*d*) of section 4 hereof, in cases where the current assets, including materials and supplies, of the company taken over by the director general under the provisions of this agreement clearly exceed the current liabilities of the company paid or assumed by the director general under said section.

Mr. EDDY. Yes.

The CHAIRMAN. Do you undertake to check the railroads' expenses in order to determine what ones of them come within the description I have just read?

Mr. EDDY. Yes. You mean, that in addition to considering the status of our accounts with them, we look into their corporate affairs to find out what their corporate expenses are and what their fixed charges are, and what their dividends would be?

The CHAIRMAN. Yes. You have certain agreed amounts that they owe you. Now, you are permitted to deduct those amounts, which are agreed on, from the amounts you owe as rentals, provided that deduction does not prevent their doing certain enumerated things, which I have just read, and do you undertake to determine the obligation that those enumerated things place upon the companies?

Mr. EDDY. Yes.

Mr. HINES. If it does not interrupt I might add that we also look very closely at all the income the corporation has from every other source and make it apply that to the fullest extent in satisfaction of these things; that is, it has got to absorb all of its other income in paying its rentals and dividends, and we protect it only as to what it has coming from the rental, because each corporation has more or less income from other sources, and we insist on that entire amount being used.

The CHAIRMAN. If I understand your statement for 1918, you have concluded that the amount of rentals that you owe, and which can be deducted without depriving them of the power to do the things you stipulate in section 7 (*b*), is $214,000,000?

Mr. HINES. Yes.

The CHAIRMAN. And to that extent you reduce the amount that you are to pay and take credit on advances that have been made, either in the way of advances secured by material or in the way of betterments?

Mr. HINES. Yes.

The CHAIRMAN. So that the only thing that is left open to us as of 1918 is a judgment as to the wisdom, or lack of it, in connection with the making of these advances and betterments, and unless the Government is to default on its agreement it must appropriate a net of $381,000,000 in addition to such part of the $500,000,000 as has been used?

Mr. HINES. Yes; that is the situation. If it does not interrupt your line of thought, I would like to say right there—because it is suggested by what we have been discussing—that I think it is important in all of these matters to keep remembering just how the thing stood at the time the armistice was signed on November 11. Up to that time the prospect of corporate financing was very unfavorable; the Government was floating very heavy loans and a very large Liberty loan was floated in the fall, so that the question of any considerable amount of corporate financing was very difficult. Of course, the scene changed right away when the armistice was signed. We at once began looking at it from the standpoint of what we could do under peace conditions to make these corporations finance, and to figure out in the individual cases how they stood and what we could call on them to do.

That work has been progressing, and in order to expedite it Mr. Eddy was put in as associate director of finance and charged with that special duty. Eventually the work we have started since the armistice was signed will result in our being able to get a considerable part of those additions and betterments financed, but it can not be done

instantly, and meanwhile we are confronted with the settlement of the account for 1918. So I think those things it is important to bear in mind in connection with the $381,000,000 proposition; that we need that to carry out our settlements in accordance with our contract obligations, but that there will gradually develop, as we can press to a conclusion the various efforts we are making to get the corporations to finance, a considerable refunding on that account.

The CHAIRMAN. I have been trying to look at this picture from two standpoints, the things which, so to speak, are foreclosed and about which we have no option, and those things which may be more or less open and about which the administration and the Government might have an option. Whether it would be desirable to exercise that option, on account of the causes that will flow, is another question, but I take it that in connection with advances already made to the railroads and with the betterments that have already taken place, and for which you will have to pay, together with the moneys that you have tied up, you will require $381,000,000?

Mr. HINES. Yes.

ADVANCES TO NEW YORK, NEW HAVEN & HARTFORD RAILROAD.

The CHAIRMAN. The $51,475,000 you advanced to the New York, New Haven & Hartford, was advanced because of the condition confronting that road and which could only be met through Government aid?

Mr. HINES. Yes; that was a condition that arose last spring.

The CHAIRMAN. Did they have maturing securities?

Mr. HINES. They had $43,500,000 of notes that matured on April 1st, last.

The CHAIRMAN. What were those notes bearing?

Mr. HINES. I think they were 6 per cent notes.

The CHAIRMAN. What effort, if any, was made to undertake to renew those notes with the investors who held them?

Mr. HINES. A very strenuous effort was made in that direction. The matter was the subject of repeated conferences, and Mr. Williams and I went over to New York and had conferences with the board of directors of the New Haven and its branches from Boston and New York, and the whole situation was very fully discussed. The bankers insisted that it was impossible, with conditions as they then stood, to offer those notes on the market. The interest rates, even for the best securities, were very high, and the New Haven's credit had been badly shattered by the conditions that had arisen in recent years, and the New England credit particularly, where it had always been the practice to place New Haven securities, was in an especially bad way, because New England had been very badly hit by heavy losses in New Haven as well as in Boston & Maine, and we became satisfied, not only from conferences with them, but from conferences with others who were familiar with the New England situation, and looking at it simply from the standpoint of the public, that it was not practicable for the New Haven to refinance that note issue at that time.

The CHAIRMAN. What length notes were they?

Mr. HINES. I think they were three-year notes that matured on April 1.

The CHAIRMAN. An investment had been made in these notes?

Mr. HINES. Yes.

The CHAIRMAN. If the interest on those notes were paid why would it have particularly disturbed the market situation if the investors had simply been required to carry that loan for a longer maturity?

Mr. HINES. Well, that was canvassed very thoroughly and the best judgment we could reach, after considering the whole thing, was that it would, in effect, be a default on the part of the New Haven; it would have had to pay any notes on which payments were demanded and they were very widely held; they were not held only by a few large holders and, as I say, we felt it would be, in effect, a default and at a time when the influence on the finances of the Government would be very unfavorable. They were then just getting ready to start the third liberty loan campaign, and the belief was expressed, which we thought was correct, after a very thorough study of it, that it would be exceedingly prejudicial with respect to the third liberty loan throughout New England if those notes were defaulted on, as they would have been, in substance, if they had said, "We can not pay them, so you will have to renew them."

The action that was taken was taken with the greatest reluctance and in spite of the conclusion which Mr. McAdoo reached at the beginning of his administration as Director General, that the railroad companies must finance their own maturities. He said that the Government was not responsible for their having borrowed the money; it had not supervised how they had spent it, and that while the Government was willing to aid in making improvements which were necessary for war conditions it was not willing to aid in financing maturities that had been created in the past. But despite that general principle he felt impelled, by reason of the peculair conditions surrounding that issue, to make that advance and take care of that situation for the time being.

The CHAIRMAN. Was any effort made to see whether some of the holders of the notes would be willing to extend their maturity?

Mr. HINES. A general inquiry into the situation was made, but I do not know that that was gone into in detail and the various note holders interviewed about it; but opinions were obtained of people who were in touch with them, knew their temper and knew how the notes were placed, and the judgment was reached that it would not be a feasible thing to do.

The CHAIRMAN. What was the time and what were the conditions of the loan that the Government made?

Mr. HINES. We made, in effect, a two-year loan. What we did was to make a one-year loan, giving them the option, if the stockholders approved it, of making it two years. The intention was to give them a two-year loan, but under the laws of Massachusetts, I believe it was, or some of the New England laws, the loan could not be made for more than one year without the approval of the stockholders. So it was put in that shape and the stockholders did approve it; so they took a two-year loan which, therefore, matures April 1, 1920.

The CHAIRMAN. With what security?

Mr. HINES. There is collateral put up and I can give you a list of that collateral. I have not the names of the securities in mind or

the amounts, but I can give you that information. Mr. Prouty, do you happen to remember?

Mr. PROUTY. No; I would not undertake to give all of those securities, but they were regarded as good collateral at the time.

The CHAIRMAN. It was not regarded as good enough collateral by the New England bankers to renew the loan?

Mr. PROUTY. But in any ordinary times they would have been willing to accept that collateral. There would not have been any question about the collateral in ordinary times.

Mr. HINES. If you like, I can give you a list of that collateral.

The CHAIRMAN. You might put such a list in the record.

Mr. HINES. The list is as follows:

I. The following bonds of the following several corporations:	
(a) Central New England Ry. Co., first mortgage 4 per cent 50-year gold bonds, due Jan. 1, 1961, principal and interest guaranteed by the New York, New Haven & Hartford R. R. Co.	$1,500,000
(b) New York & Stamford Ry. Co., first and refunding 50-year gold bonds, due 1958	678,000
(c) The New England Steamship Co., 5 per cent first mortgage bonds, due 1934	4,880,000
II. The following debentures and notes of the following several corporations:	
(a) The Harlem River & Port Chester R. R. Co., 5 per cent prior lien gold debenture bonds, dated May 1, 1915	13,000,000
(b) The Connecticut Co., equitable lien 5 per cent gold debentures, dated Aug. 1, 1916	1,000,000
(c) The New England Investment & Security Co., 3, 4, and 5 per cent refunding gold notes, due 1924	13,709,000
III. The following shares of stock of the following several corporations:	
(a) 98,132 shares Old Colony R. R. Co., a corporation of the Commonwealth of Massachusetts	9,813,200
(b) 95,246 shares Boston & Providence R. R. Corporation, a corporation of the Commonwealth of Massachusetts	524,600
(c) 9,551 shares Providence & Worcester R. R. Co., a corporation of the Commonwealth of Massachusetts and the State of Rhode Island	955,100
(d) 971 shares Norwich & Worcester R. R. Co., a corporation of the Commonwealth of Massachusetts and the State of Connecticut, preferred stock	97,100
(e) 4,867 shares Providence, Warren & Bristol R. R. Co., a corporation of the State of Rhode Island, common stock	486,700
(f) 291,600 shares New York, Ontario & Western Ry. Co., a corporation of the State of New York, common stock	29,160,000
(g) 22 shares New York, Ontario & Western Ry. Co., a corporation of the State of New York, preferred stock	2,200
(h) 17,482 shares Hartford & Connecticut Western R. R. Co., a corporation of the State of Connecticut, common stock	1,748,200
(i) 23,520 shares Rutland R. R. Co., a corporation of the State of Vermont, preferred stock	2,352,000
(j) 37,370 shares Central New England Ry. Co., a corporation of the State of New York, preferred stock	3,737,000
(k) 47,950 shares Central New England Ry. Co., a corporation of the State of New York, common stock	4,795,000
(l) 20,000 shares Hartford & New York Transportation Co., a corporation of the State of Connecticut	2,000,000
(m) 5,000 shares New York & Stamford Ry. Co., a corporation of the State of New York	500,000
(n) 53,981 shares Berkshire Street Ry. Co., a corporation of the Commonwealth of Massachusetts	5,398,100
(o) 6,500 shares The Vermont Co., a corporation of the State of Vermont	650,000
(p) 1,417 shares New Bedford, Marthas Vineyard & Nantucket Steamboat Co., a corporation of the Commonwealth of Massachusetts	141,700

III. The following shares of stock of the following several corporations—Continued.	
(q) 30,000 shares The New England Steamship Co., a corporation of the State of Connecticut (preferred stock)	$3,000,000
(r) 28,124 shares The New England Steamship Co., a corporation of the State of Connecticut (common stock)	2,812,400
(s) 18,750 shares Eastern Steamship Lines (Inc.), a corporation of the State of Maine (preferred stock)	1,875,000
IV. The certificates representing the entire beneficial interest in the following bonds and the following shares of stock of the following corporations (legal title to said bonds and shares of stock being vested in court trustees):	
(a) Providence & Danielson Ry. Co., 5 per cent first and refunding mortgage gold bonds due May, 1931	600,000
(b) Sea View R. R. Co., first mortgage 5 per cent gold bonds, due July 1, 1948	600,000
(c) 400,000 shares The Connecticut Co., a corporation of the State of Connecticut	40,000,000
(d) 1,015 shares Connecticut River R. R. Co., a corporation of the Commonwealth of Massachusetts	101,500
(e) 2,469 shares Concord & Montreal R. R., a corporation of the State of New Hampshire	246,900
(f) 1,464 shares Connecticut & Passumpsic Rivers Railroad Co., a corporation of the State of Vermont (preferred stock)	146,400
(g) 922 shares Northern R. R., a corporation of the State of New Hampshire	92,200
(h) 244,939 shares Boston R. R. Holding Co., a corporation of the Commonwealth of Massachusetts (preferred stock)	24,493
(i) 31,065 shares Boston R. R. Holding Co., a corporation of the Commonwealth of Massachusetts (common stock)	3,106,500
(j) 63 shares Manchester & Lawrence R. R., a corporation of the State of New Hampshire	6,300
(k) 246 shares Hereford Ry. Co., a corporation of the Dominion of Canada	24,600
(l) 184 shares Vermont & Massachussetts R. R. Co., a corporation of the Commonwealth of Massachusetts	18,400
(m) 193 shares Lowell & Andover R. R. Co., a corporation of the Commonwealth of Massachusetts	19,300
(n) 412 shares Boston & Lowell R. R. Corporation, a corporation of the Commonwealth of Massachusetts	41,200
(o) 710 shares Pemigewassett Valley R. R., a corporation of the State of New Hampshire	71,000
(p) 73 shares Upper Coos R. R., a corporation of the State of New Hampshire	7,300
(q) 18 shares Concord & Portmouth R. R., a corporation of the State of New Hampshire	1,800
IV. The certificates representing the entire beneficial interest in the following bonds and the following shares of stock of the following corporations (legal title to said bonds and shares of stock being vested in court trustees).—Continued.	
(r) 86 shares Peterborough R. R., a corporation of the State of New Hampshire	8,600
(t) 84 shares Nashua & Lowell R. R. Corporation, a corporation of the Commonwealth of Massachusetts and of the State of New Hampshire	8,400
(u) 354 shares Massawippi Valley Ry., a corporation of the Dominion of Canada	35,400
(v) 96,855 shares the Rhode Island Co., a corporation of the State of Rhode Island	9,685,500
(u) 9,132 shares Providence & Danielson Ry. Co., a corporation of the State of Rhode Island	35,400
(x) 7,000 shares Sea View R. R. Co., a corporation of the State of Rhode Island	700,000

The CHAIRMAN. That was your first loan, amounting to forty-odd million dollars?

Mr. HINES. Yes; $43,600,000.

The CHAIRMAN. Subsequently you loaned them about $8,000,000 more?

Mr. HINES. Yes, sir.

The CHAIRMAN. What was the occasion of that loan?

Mr. HINES. I would have to look into that and get the details of that, because they are not fresh in my mind.

Mr. PROUTY. I think that was for the additions and betterments.

Mr. HINES. I do not have it clearly in my mind.

Mr. PROUTY. I may be wrong about that, but that is my recollection. They may have gotten the money for some other thing, but the money has been invested in additions and betterments, and it was really advanced for that purpose.

The CHAIRMAN. To what extent has the Government made betterments for this road, besides financing it?

Mr. HINES. The New Haven?

The CHAIRMAN. Yes.

Mr. HINES. The amount of the additions and betterments made for the New Haven from January 1, 1918, to December 31, 1918, was $12,610,924.

Mr. PROUTY. The New Haven had, Mr. Hines, about $3,000,000 leeway between its standard return and its fixed charges, and the balance of those additions and betterments must be provided by the director general, and it was understood that the same collateral should stand as security for that advance. That is my recollection of it. So there will be some $8,000,000 or $9,000,000 to be provided for.

The CHAIRMAN. In other words, of this $12,610,924 given to the New Haven in the way of betterments you expect to recoup yourselves to the extent of some $3,000,000 which represents the difference between their fixed charges, including dividends——

Mr. PROUTY (interposing). They pay no dividends.

The CHAIRMAN. Then their fixed charges and the rental price.

Mr. PROUTY. That is right.

Mr. HINES. That much per year.

The CHAIRMAN. That deduction has been merged in this broad general statement?

Mr. HINES. Yes.

The CHAIRMAN. The result of the relationship of this particular road to the Government has been that you have made advances to it of about $61,000,000 net? The statement shows that you have loaned them direct $51,475,000, and you have made betterments for them to the extent of $12,610,924?

Mr. PROUTY. That is not as I understand it. I understand that the whole amount of our advances to them would be about $51,000,000. They had this indebtedness of $42,000,000 and they had additions and betterments to the amount of $12,000,000. The additions and betterments were to be provided for by taking about $3,000,000 from their standard returns and getting about $8,000,000 or $9,000,000 upon their collateral.

The CHAIRMAN. We would like to know the facts in regard to that.

Mr. HINES. We will verify that and give you the exact information.

The CHAIRMAN. You can put that in as a note right at this point in the hearing.

Mr. HINES. We will do so.

(The statement is as follows:)

Statement of account between the Director General and the New York, New Haven & Hartford R. R. Co. as of Dec. 31, 1918.

Due company:	
Standard returns	$16,867,128
Less advances thereon	1,950,000
	14,917,128
Due Government:	
Loans	51,475,000
Additions and betterments expenditures	12,610,924
Balance of open account, corporate liabilities paid by Federal Treasurer in excess of corporate assets collected	6,920,884
	71,006,808
Balance due Government	56,089,680

The CHAIRMAN. What prospect is there of getting this money back? You say that this loan of $42,000,000 was well secured by collateral.

Mr. PROUTY. Permit me to say in explanation of what I have just said that I know nothing about the transactions since the loan was made. I know what was contemplated at that time, but I do not know what has been done.

The CHAIRMAN. But to the extent of $42,000,000, you think you hold collateral?

Mr. PROUTY. To the extent of $51,000,000 we hold sufficient collateral, as I understand it.

The CHAIRMAN. I may be wrong, but I gathered the impression that your first loan was your secured loan, or that you had collateral that was supposed to be ample to secure that loan.

Mr. PROUTY. That collateral was supposed to be sufficient to secure not only that loan, but the additional sum mentioned. Those additions and betterments I have figured out at about $9,000,000. Of course, I can not carry all of these things in my head, and I have not been over this within the last eight or nine months, but that is my recollection of it.

Mr. HINES. We will give you a careful statement showing the exact situation in regard to that.

The CHAIRMAN. Is it contemplated that this debt will be liquidated at its maturity?

Mr. HINES. I think that with anything like normal business conditions that may be financed outside when it matures.

The CHAIRMAN. In advance of normal conditions will we be called upon to renew the loan and hold the collateral, or will we find somebody to take it off our hands, as the original lenders found the Government to take it off their hands?

Mr. HINES. We will not find anybody as much interested in the general situation as the Government was. I think that with anything like normal conditions that loan ought to be financed outside when it matures. Of course, if conditions are very abnormal, the Government would have to decide between renewing the loan or selling the collateral, and if the conditions were very unfavorable it might be a bad time to sell the collateral.

The CHAIRMAN. Is any of this $100,000,000 in the way of advances being advanced to the New Haven, other than the amounts we have been discussing?

Mr. PARKER. That same item is shown in schedule 9. In other words, we estimated that we would not be able to collect that amount from the New Haven. That $6,900,000 is a part of the $100,000,000.

The CHAIRMAN. Suppose, as an illustration, you throw in together the whole situation touching the financing of the New York, New Haven & Hartford Railroad.

Mr. SISSON. Put it in one short, concise statement.

Mr. HINES. We will do so.

OPEN ACCOUNTS.

The CHAIRMAN. You have here a schedule which undertakes to show the amounts due the Government on open accounts, and which, I presume, is what goes to make the $100,000,000 that we have been dealing with heretofore.

Mr. HINES. Which schedule is that?

The CHAIRMAN. I am looking at schedule 7. That schedule shows sums totaling $157,320,724. I presume that schedule 9 will show the amount which it is estimated can not be collected through income.

Mr. HINES. Yes, sir.

The CHAIRMAN. That seems to show a total of——

Mr. PARKER (interposing). $114,000,000, as shown at the bottom of sheet 2 of schedule 9.

The CHAIRMAN. If I understand the tables that have been submitted here, sheet 7 undertakes to show the amounts due the Government on open account as of September 30, 1918?

Mr. PARKER. Yes, sir.

The CHAIRMAN. And it shows a total of $157,320,724?

Mr. PARKER. Yes, sir.

The CHAIRMAN. Sheet 9 purports to show the amounts that can not be paid out of rentals, but which will be claims against the various companies secured by the material and supplies which are on hand.

Mr. PARKER. Yes, sir.

The CHAIRMAN. And it totals $114,330,510?

Mr. PARKER. Yes, sir.

The CHAIRMAN. The note states—

As the amount of credit it will be necessary to allow the companies for material and supplies in settlement of open accounts has not yet been definitely ascertained, it was thought best to reduce the above estimate to the round figure of $100,000,000 in connection with the appropriation.

Mr. PARKER. Yes, sir.

The CHAIRMAN. That is the $100,000,000 that we have been talking of in connection with this broad and general statement you have made?

Mr. HINES. Yes, sir.

ACCOUNT OF ATCHISON, TOPEKA & SANTA FE RAILROAD.

Mr. SISSON. We will take a large account like that of the Atchison, Topeka & Santa Fe Railroad. There is an item of $1,828,236 on page 1 of schedule 9, and I see that the same amount appears in schedule 7 sheet No. 1, as a deferred payment. It is not included, I presume, in

the accounts you are likely to collect very soon. Now, what investigation, for example has been made of this railroad in connection with deferring the collection of that account?

Mr. PARKER. I can not say that we have taken each individual railroad and run it down to see whether it was likely to pay these amounts, but we have assumed to take the total income which that company would have over and above the amount required for the payment of its interest, dividends, and other charges, or such charges as we are required to permit it to pay under the contract and it seems to me that if we assume to take all of its additional income over and above its interest, dividends, etc., it would not have any other money to pay it.

Mr. SISSON. There has been no request on the Atchison, Topeka & Santa Fe Railroad to pay that money? Will they keep on owing that open account without any effort being made to collect it?

Mr. PARKER. On the face of the account we owe the Atchison, Topeka & Santa Fe Railroad compensation, less certain deductions. We have not yet reached the point where we have determined how far we can go in making deductions from each separate company.

Mr. SISSON. Do you owe the Atchison, Topeka & Santa Fe Railroad an amount anything like $1,828,236?

Mr. PARKER. I can show you approximately what is the situation. We owe the Atchison, Topeka & Santa Fe Railroad $38,000,000 on account of its rentals. We had not made them a single advance up to December 31.

Mr. SISSON. Then they can pay this money.

Mr. HINES. Up to the present we have money due that company much in excess of what is due us.

Mr. SISSON. Then, from this $100,000,000 you could eliminate this $1,828,236?

Mr. HINES. Taking that company as an illustration, there have been expended for the year 1918 $22,385,000 for additions and betterments. That is shown on schedule 2-a. Then we have expended for the company on open accounts $1,828,236. Now, from the standpoint of what we can deduct under the contract, I understand that considering the large amount of additions and betterments that we have got to deduct as we can for, we have not also the right to deduct the $1,828,236.

Mr. SISSON. Of course, this does not show anything like the income of the railroad, or what the Government owes the railroad. This is simply business that the railroad did for the Government?

Mr. HINES. No, sir; that represents rentals.

Mr. SISSON. Rentals alone?

Mr. HINES. Yes, sir.

Mr. SISSON. In order to determine, then, whether or not the railroad company will be able to settle that account, you would have to take the income of the railroad——

Mr. HINES (interposing). You have got two stages: In the first place, you take what you will owe the company, and you consider how much of that it will need under the contract with which to pay interest, taxes, dividends, etc., taking first into consideration all of the other income that it has from other sources, and what is left of the rentals after making allowance for the necessary amount of interest, taxes, dividends, etc., you might apply to offset any amount

that we have expense for additions and betterments and on this open account. That can be figured out now. Now, it is evident from the size of the expenditure for additions and betterments that we are not in a position to take all of that and also this $1,828,236 on open account.

Mr. SISSON. That would be $22,385,203 for betterments plus this other amount you have advanced?

Mr. HINES. We could not deduct all of that under the contract from the railroad, because the amount needed for interest, taxes, dividends, etc., would be so great that there would only be three or four million dollars left after the deduction. The purpose in making up this statement is this: It can be ascertained that the Atchison, Topeka & Santa Fe Railroad can not be required to pay out of its rentals this $1,828,236, but when we go to make a settlement with the Atchison, Topeka & Santa Fe Railroad, we can see how the account stands, and we will then be in a position to say, "you owe us this money, and you must go out and borrow the money and pay us;" because the Atchison, Topeka & Santa Fe Railroad Co. is a company with adequate credit and it can be requested to do that. In the first place, it takes time to make the settlements. It will probable be two months or more in 1919 before the final figures for 1919 can be made up absolutely so that a settlement can be struck with the company. Then, it takes some time to do this financing of the interest, etc. By the end of the first six months of this year, we will be beginning to get a lot of those things re-financed, but, in the meantime, we are in the position of owing money for the calendar year 1918.

Mr. SISSON. What is being done in the way of an investigation of this railroad company's books under your authority to ascertain its condition? As the Director General of Railroads you can require them to pay that money, can you not, irrespective of the contract, by special order? You have the right to issue special orders, have you not?

Mr. HINES. I do not think a special order would be needed. We have the leverage that would require them to go out and borrow the money to pay us off as soon as we could reasonably determine, considering the general financial condition, what course to pursue. You must take a little time to straighten out the accounts or to see what is owing you, and then a little time, which might be even two or three months, for perfecting the details and plans for getting the money. In the meantime we are in a situation where we have to pay our obligations for the calendar year 1918, and we need money to do it.

Mr. SISSON. What I had in mind was to ascertain what effort had been made or would be made in connection with these various companies to see that they liquidated these open accounts with the Government, or the accounts that are due the Government that make up this $100,000,000.

Mr. HINES. There will be a most strenuous effort to do that, with what leverage we have, if they do not resort to every reasonable means to do it.

ACCOUNT OF ILLINOIS CENTRAL RAILROAD.

Mr. SISSON. Take, for instance, the Illinois Central Railroad. The finances of that railroad have always been in good shape, although I do not know how they are under Government management.

Mr. HINES. It ought to find a way of financing it.

Mr. SISSON. That is only $7,311,365, and I am wondering why a railroad company like the Illinois Central should want to defer that account.

Mr. HINES. It has also its additions and betterments, and the whole thing has got to be added together to find out what we have the right to deduct for these payments. Then we have got to take into consideration the financial conditions, and determine how rapidly we can make them liquidate. The expenditure of the Illinois Central for additions and betterments is $24,830,199, so that it has that amount in addition to the open account to finance.

Mr. SISSON. What is the rental of the Illinois Central?

Mr. PARKER. $16,282.000.

Mr. SISSON. Does that include all of the branch lines?

Mr. PARKER. Yes, sir.

The CHAIRMAN. Mr. Hines, suppose there is placed in the record a statement which would be more or less of a consolidation of the statement that now purports to show the amount due to the Government on open accounts by various roads and the statement which purports to show the expenditures that have been made in the way of betterments to those same roads, so that the total advances that have been made for all of the roads may be seen, irrespective of whether the advances be in connection with open accounts or betterments, and then as against that the amount of rentals that will be applied in liquidation of such investment or advances?

Mr. HINES. I shall be very glad to have the statement prepared.

(The following is a statement consisting of two exhibits, showing the facts called for by the chairman's question:)

Approximate statement of account between the director general and the companies as of December 31, 1918.

	Due companies.				Due companies on open account (column 2) which can be applied to additions and betterments.	Deductions.			Net amount due companies.
	Balance due on compensation.	Due companies on open accounts.	Total due companies.	Amounts which can be deducted from income.		Due Government on open account.	Credit for material and supplies.	Total deductions.	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Alabama & Vicksburg	$259,854	$487,722	$747,576	$21,040	$116,916			$137,956	$609,620
Alabama Great Southern	1,430,513	616,089	2,046,602	342,266	526,121			868,387	1,178,215
Ann Arbor	170,083		170,083	145,769		$305,691	*$305,691*	145,769	24,314
Arizona Eastern	1,242,475	261,332	1,503,807	180,836				180,836	1,322,971
Atchison, Topeka & Santa Fe	38,366,042		38,366,042	8,211,328		1,828,236	*1,828,236*	8,211,328	30,154,714
Atlanta & West Point	252,995		252,995	78,715		192,503	*192,503*	78,715	174,280
Atlanta, Birmingham & Atlantic	238,058	158,122	396,180		158,122			158,122	238,058
Atlantic & St. Lawrence		348,128	348,128		239,939			239,939	108,189
Atlantic City	222,066		222,066			300,162	*222,319*	77,843	144,223
Atlantic Coast Line	8,980,915	1,593,396	10,574,311	2,442,842	1,593,396			4,036,238	6,538,073
Baltimore & Ohio, including coal and coke	5,469,215	2,823,163	8,292,378	5,086,318	2,823,163			7,909,481	382,897
Bangor & Aroostook	962,775	8,876	971,651	40,104	8,876			48,980	922,671
Beaumont, Sour Lake & Western		68,477	68,477		47,863			47,863	20,614
Bessemer & Lake Erie	4,674,714	481,360	5,156,074	2,176,648	481,360			2,658,008	2,498,066
Boston & Maine	7,211,075	807,320	8,018,395	1,842,271	807,320			2,649,591	5,368,804
Buffalo & Susquehanna	592,628	50,850	643,478	8,696				8,696	634,782
Buffalo, Rochester & Pittsburgh	976,410	224,272	1,200,682		224,272			224,272	976,410
Carolina, Clinchfield & Ohio	1,585,157		1,585,157	397,496		267,547	*267,547*	397,496	1,187,661
Central of Georgia	2,500,903		2,500,903	333,684		2,182,363		2,516,047	*15,144*
Central New England	978,124		978,124	358,721		250,104	*250,104*	358,721	619,403
Central R. R. of New Jersey	8,102,301		8,102,301	4,258,645		156,474	*156,474*	4,258,645	3,843,656
Central Vermont	194,098		194,098			457,860	*457,860*		194,098
Charleston & Western Carolina	466,921	271,092	738,013	36,063				36,063	701,950
Chesapeake & Ohio	5,176,983		5,176,983	2,612,838		2,434,672	*2,434,672*	2,612,838	2,564,145
Chicago & Alton	1,718,315		1,718,315			2,460,937	*1,332,195*	1,128,742	589,573
Chicago & Eastern Illinois	2,274,383	1,996,961	4,271,344		1,996,961			1,996,961	2,274,383
Chicago & Erie	225,129		225,129			765,157	*765,157*		225,129
Chicago & North Western	14,201,016		14,201,016	4,093,412		3,168,364	*3,168,364*	4,093,412	10,107,604
Chicago, Burlington & Quincy	22,710,683	961,187	23,671,870	11,579,651				11,579,651	12,092,219
Chicago, Detroit & Canada G. T. Junction	195,203		195,203	105,682				105,682	89,521
Chicago Great Western	1,772,790		1,772,790	531,441		499,110	*499,110*	531,441	1,241,349
Chicago, Indianapolis & Louisville	20,259		20,259	482,869		934,436	*934,436*	482,869	*462,610*
Chicago, Milwaukee & St. Paul	20,022,551		20,022,551	3,174,045		6,300,697	*6,300,697*	3,174,045	16,848,510
Chicago, Peoria & St. Louis	127,540		127,540			318,269	*190,778*	187,491	*59,951*

Chicago, Rock Island & Pacific and Chicago, Rock Island & Gulf	14,183,891		14,183,891	1,021,880		10,618,594	[illegible]	1,848,192	12,335,699
Chicago, St. Paul, Minneapolis & Omaha	2,188,790		2,188,790	948,950		1,669,282	*1,669,282*	918,950	1,535,840
Chicago, Terre Haute & Southeastern	534,873		534,873	114,531		282,617	*282,617*	114,531	420,342
Cincinnati, Indianapolis & Western	272,213	90,654	362,867	197,718	90,654			288,372	74,595
Cincinnati, New Orleans & Texas Pacific	2,821,690	1,393,321	4,215,011	1,430,957	375,933			1,806,890	2,408,121
Cincinnati Northern	317,628		317,628	110,854		67,573	*67,573*	110,854	206,774
Cleveland, Cincinnati, Chicago & St. Louis	2,988,597		2,988,597	4,209,151		1,799,247	*1,799,247*	4,209,151	*1,220,554*
Colorado & Southern	996,212	627,217	1,623,429	372,910				372,910	1,250,519
Cumberland Valley	1,228,967		1,228,967	547,838		66,626	*66,626*	547,838	681,129
Delaware & Hudson	1,119,600		1,119,600	1,465,313		1,523,839	*1,523,839*	1,465,313	*345,713*
Delaware, Lackawanna & Western	11,749,477		11,749,477	3,628,602		6,231,774		9,860,376	1,889,101
Denver & Rio Grande	2,319,377		2,319,377	1,319,426		803,976	*803,976*	1,319,426	999,951
Denver & Salt Lake	292,290		292,290			55,578	*55,578*		292,290
Detroit & Mackinac	235,664		235,664	912		198,831	*198,831*	912	234,752
Detroit, Toledo Shore Line	356,512	77,780	434,292	109,460				109,460	324.832
Detroit, Grand Haven & Milwaukee	146,644		146,644						146,644
Detroit, Toledo & Ironton	*124,981*		*124,981*	67,775		328,917	*262,324*	134,368	*259,349*
Duluth & Iron Range	2,355,142	1,291,447	3,646,589	722,578				722,578	2,924,011
Duluth, Missabe & Northern	5,122,051	843,500	5,965,551	1,366,593				1,366,593	4,598,958
Duluth, South Shore & Atlantic	444,637	156,717	601,354		77,485			77,485	523,869
Elgin, Joliet & Eastern	2,862,177		2,862,177	797,984		422,858	*422,858*	797,984	2,064,193
El Paso & Southwestern	4,145,102	1,754,316	5,899,418	275,932	1,754,316			2,030,248	3,869,170
Erie	1,503,939	7,898,264	9,402,203	4,942,667				4,942,667	4,459,536
Florida East Coast	2,192,842		2,192,842	992,958		992,446	*992,446*	992,958	1,199,884
Fort Worth & Denver City	1,272,386	2,180,877	3,453,263	162,811				162,811	3,290,452
Fort Worth & Rio Grande	1,000		1,000			99,789	*4,044*	95,745	*94,745*
Galveston, Harrisburg & San Antonio	3,230,645		3,230,645	87,380		10,887	*10,887*	87,380	3,143,265
Georgia Railroad	549,622		549,622	139,963		114,388	*114,388*	139,963	409,659
Georgia Southern & Florida	231,457		231,457	64,511		241,732	*241,732*	64,511	166,946
Grand Rapids & Indiana	929,385		929,385	96,852		501,295	*501,295*	96,852	832,533
Grand Trunk Western	312,994	1,868,243	2,181,237		1,324,309			1,324,309	856,928
Great Northern	21,866,681		21,866,681	11,782,978		4,726,355	*4,726,355*	11,782,978	10,083,703
Gulf & Ship Island	397,456		397,456			127,340	*127,340*		397,456
Gulf, Colorado & Santa Fe	2,824,174		2,824,174			1,624,380	*1,624,380*		2,824,174
Gulf, Mobile & Northern	158,338		158,338	532,892				532,892	*374,554*
Hocking Valley	1,637,167		1,637,167	708,510		10,525	*10,525*	708,510	928,657
Houston & Texas Central	1,717,506		1,717,506	157,835		5,091	*5,091*	157,835	1,559,671
Houston East & West Texas	375,566		375,566	29,352		91,600	*91,600*	29,352	346,214
Hudson & Manhattan	1,933,114		1,933,114			591,289		591,289	1,341,825
Illinois Central	2,057,374		2,057,374	1,125,144		7,311,365	*7,311,365*	1,125,144	932,230
International & Great Northern	917,731		917,731			227,719	*227,719*		917,731
Kanawha & Michigan	995,141		995,141	484,369		140,358	*140,358*	484,369	510,772
Kansas City, Mexico & Orient (including K. C., M. & O. of Texas)	50,000	21,090	71,090		11,064			11,064	60,026
Kansas City Southern	2,131,698		2,131,698	750,597		1,107,565		1,858,162	273,536
Lake Erie & Western	1,078,542		1,078,542	748,481		709,823	*709,823*	748,481	330,061
Lehigh & Hudson River	446,371	8,590	454,961	157,057	8,590			165,647	289,314
Lehigh & New England	610,761		610,761	155,236		448,586		603,822	6,939
Lehigh Valley	9,321,233	129,595	9,450,828	2,384,172	129,595			2,513,767	6,937,061
Long Island	2,611,949		2,611,949	262,622		2,656,593		2,919,215	*307,266*
Los Angeles & Salt Lake	2,245,417		2,245,417	892,117		821,250	*821,250*	892,117	1,353,300

Approximate statement of account between the Director General and the companies as of December 31, 1918—Continued.

	Due companies.				Due companies on open account (column 2) which can be applied to additions and betterments.	Deductions.			Net amount due companies.
	Balance due on compensation.	Due companies on open accounts.	Total due companies.	Amounts which can be deducted from income.		Due Government on open account.	Credit for material and supplies.	Total deductions.	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Louisiana & Arkansas	$357,987	$16,172	$374,159	$9,394	$13,859			$23,253	$350,906
Louisiana Western	895,178		895,178	29,175		$543,244		572,419	322,759
Louisville & Nashville	14,310,495	227,725	14,538,220	4,945,076	227,725			5,172,801	9,365,419
Louisville, Henderson & St. Louis	326,416		326,416	123,501				123,501	202,915
Maine Central	1,925,697	21,392	1,947,089	288,124	21,392			309,516	1,637,573
Michigan Central	*197,873*		*197,873*	1,860,857		2,638,149	*$2,638,149*	1,860,857	*2,058,730*
Midland Valley	174,346	146,931	321,277	16,165	146,931			163,096	158,181
Mineral Range	147,432		147,432	411		466,575	*262,449*	204,537	*57,105*
Minneapolis & St. Louis	744,857		744,857	259,995		1,744,308		2,004,303	*1,259,446*
Minneapolis, St. Paul & Sault Ste. Marie	7,648,523		7,648,523	789,088		916,424	*916,424*	789,088	6,859,435
Missouri & North Arkansas	13,146	213,394	226,540		19,490			19,490	207,050
Missouri, Kansas & Texas	3,795,303		3,795,303	1,290,536		1,740,396	*1,740,396*	1,290,536	2,504,767
Missouri, Kansas & Texas of Texas	621,773		621,773			2,595,815	*2,595,815*		621,773
Missouri Pacific	9,673,883		9,673,883	2,367,618		9,123,659		11,491,277	*1,817,394*
Mobile & Ohio (including Southern Railway in Mississippi)	1,699,203		1,699,203	388,834		1,488,184	*1,488,184*	388,834	1,310,369
Monongahela	283,086	125,077	408,163	170,516	125,077			295,593	112,570
Morgan's Louisiana & Texas	1,188,526		1,188,526	313,759		299,334	*299,334*	313,759	874,767
Nashville, Chattanooga & St. Louis	3,182,089	51,534	3,233,623	821,377	51,534			872,911	2,360,712
New Orleans & Northeastern	811,631	713,853	1,525,484	426,061	373,007			799,068	726,416
New Orleans & Great Northern	455,952		455,952	74,496		354,885	*174,377*	255,004	200,948
New Orleans, Texas & Mexico	42,673	1,282,002	1,324,675	31,681				31,681	1,292,994
New York Central	2,552,631	720,991	3,273,622	13,122,120	720,991			13,843,111	*10,569,489*
New York, Chicago & St. Louis	1,209,082		1,209,082	98,605		1,039,767	*1,039,767*	98,605	1,110,477
New York, New Haven & Hartford	14,917,128		14,917,128	3,639,354		6,920,884	*6,920,884*	3,639,354	11,277,774
New York, Ontario & Western	1,528,589	744,972	2,273,561	210,558				210,558	2,063,003
New York, Philadelphia & Norfolk	826,051	95,229	921,280	274,377				274,377	646,903
New York, Susquehanna & Western	600,587		600,587	225,071		80,468	*80,468*	225,071	375,516
Norfolk & Western	15,284,163	2,840,310	18,124,473	7,395,555	2,840,310			10,235,865	7,888,608
Norfolk Southern	453,991		453,991	151,454		165,967	*165,967*	151,454	302,537
Northern Pacific	24,557,760		24,557,760	10,876,765		4,126,335	*4,126,335*	10,876,765	13,680,995
Northwestern Pacific	1,235,101		1,235,101			299,495	*299,495*		1,235,101
Oregon Short Line	10,196,750		10,196,750	169,853		2,946,819	*2,946,819*	169,853	10,026,897
Oregon-Washington R. R. & Navigation Co.	4,519,352		4,519,352	275,849		3,906,779		4,182,628	336,724
Pan Handle & Santa Fe	1,330,482	147,752	1,478,234	31,927	147,752			179,679	1,298,555
Pennsylvania lines west	10,996,785	4,286,888	15,283,673	5,951,722	4,286,888			10,238,610	5,045,063

Pennsylvania, lines east	2,673,495	38,730,527	41,404,022	12,726,912	38,730,527			51,457,439	10,053,417
Pittsburgh, Cincinnati, Chicago & St. Louis	7,841,094	1,910,367	9,751,461	851,899	1,910,367			2,765,266	6,989,105
Pere Marquette	2,893,193	1,921,148	4,814,341	770,599	1,921,148			2,691,747	2,122,597
Philadelphia & Reading	9,778,331		9,778,331	4,070,758		2,092,451	*2,092,451*	4,070,758	5,707,573
Pittsburgh & Lake Erie	5,880,219	170,642	6,050,861	2,650,404				2,650,404	3,400,457
Pittsburgh & Shawmut	*45,683*	137,772	92,089	242,261	94,609			336,870	*244,781*
Pittsburgh & West Virginia	237,010	234,385	471,395	589,799				589,799	*118,404*
Port Reading	235,698		235,698			331,127		331,127	*95,429*
Richmond, Fredericksburg & Potomac	1,077,374		1,077,374	137,512		758,866		896,378	180,996
Rutland	782,883		782,883	371,083		108,646	*108,646*	371,083	411,800
St. Joseph & Grand Island	373,811		373,811	138,969		169,948	*169,948*	138,969	234,842
St. Louis, Brownsville & Mexico	983,890		983,890	41,598		19,198	*19,198*	41,598	942,292
St. Louis-San Francisco	9,440,213		9,440,213	401,859		6,144,569	*5,680,038*	866,390	8,573,823
St. Louis, San Francisco & Texas						141,331	*141,331*		
St. Louis Southwestern	2,085,749		2,085,749	1,011,808		2,535,340	*1,026,627*	2,520,521	*434,772*
St. Louis Southwestern R. R. of Texas	555,165		555,165			376,145	*376,145*		555,165
San Antonio & Aransas Pass	320,052		320,052			119,323	*119,329*		320,052
Seaboard Air Line	1,822,025		1,822,025	302,392		2,903,073	*2,903,073*	302,392	1,519,633
Southern Pacific	22,021,038		22,021,038	5,376,977		8,089,161	*8,089,161*	5,376,977	16,644,061
Southern	14,435,980		14,435,980	3,545,233		9,850,294	*9,850,294*	3,545,233	10,890,747
Spokane, Portland & Seattle	1,871,083		1,871,083			716,446	*716,446*		1,871,083
Staten Island Rapid Transit	358,857	355,282	714,139	126,582	355,282			481,864	232,275
Tennessee Central	147,734		147,734			209,858	*127,105*	82,753	61,981
Texarkana & Fort Smith	318,729		318,729			227,400	*227,400*		318,729
Texas & New Orleans	715,135		715,135	28,689		110,711	*110,711*	28,689	686,446
Texas & Pacific	3,198,182		3,198,182	2,450,778		1,898,649	*1,898,649*	2,450,778	747,404
Toledo & Ohio Central	516,651	582,840	1,099,491	425,687	582,840			1,008,527	90,964
Toledo, Peoria & Western	149,740	107,425	257,165	15,866	10,275			26,141	231,024
Toledo, St. Louis & Western	991,294		991,294			342,610	*342,610*		991,294
Ulster & Delaware	58,009	22,547	80,556		22,547			22,547	58,009
Union Pacific	10,200,009		10,200,009	7,622,831		498,607	*498,607*	7,622,831	2,577,178
Vicksburg, Shreveport & Pacific	95,948	467,177	563,125	36,863	75,730			112,593	450,532
Virginian	2,347,603	1,048,384	3,395,987	1,658,885	1,048,384			2,707,269	688,718
Wabash	2,212,772		2,212,772	2,525,058		4,811,057		7,336,115	*5,123,343*
Washington Southern	428,433		428,433	73,463		276,699	*245,580*	104,582	323,851
Western Maryland	1,521,593	958,803	2,480,396	586,733	958,803			1,545,536	934,860
Western Pacific	1,900,350	465,919	2,366,259	1,202,259	465,919			1,668,178	698,091
Western Railway of Alabama	178,238	257,004	435,242	8,491	257,004			265,495	169,747
West Jersey & Seashore	952,682		952,682	76,548		1,531,156		1,607,704	*655,022*
Wheeling & Lake Erie	886,037		886,037	521,203		7,619	*7,619*	521,203	364,834
Wichita Falls & Northwestern	145,245		145,245			170,417	*33,916*	136,501	8,744
Wichita Valley	352,367	72,439	424,806	20,639				20,639	404,167
Yazoo & Mississippi Valley	3,862,318		3,862,318	1,721,583		2,030,886		3,752,469	109,849
Miscellaneous	2,684,959	20	2,684,979	11,336,857		*20*	14,330,515	25,667,352	*22,982,373*
Total	531,575,499	88,576,861	620,152,360	214,211,190	68,204,646	157,320,724	*100,000,000*	339,736,560	280,415,800
Depreciations and retirements, all companies	100,000,000		100,000,000						100,000,000
Difference account of use of round figures in credit for materials and supplies							*1,391,104*	*1,391,104*	1,391,104
Grand total	631,575,499	88,576,861	720,152,360	214,211,190	68,204,646	157,320,724	*101,391,104*	338,345,456	381,806,904

Estimate of capital expenditures made during 1918 which will have to be financed by the Government.

Name of road.	Estimated income for 1918.					Capital expenditures made to Dec. 31, 1918.			Capital expenditures made to Dec. 31, 1918, which can not be taken care of out of surplus for 1918.			Open account due companies.	Total capital expenditures to be financed by Government.	
	Standard return.	Other income.	Total income.	Fixed charges and regular dividends.	Estimated surplus after fixed charges and regular dividends.	Road.	Equipment.	Total.	Road.	Equipment.	Total.		Road.	Equipment.
New York Central (including Boston & Albany)	$55,802,631	$12,847,822	$68,650,453	$55,528,333	$13,122,120	$16,364,697	$22,057,104	$38,421,801	$3,242,577	$22,057,104	$25,299,681	$720,991	$2,521,586	$22,057,104
Illinois Central	16,282,374	4,317,207	20,599,581	19,474,437	1,125,144	11,444,084	13,386,115	24,830,199	10,318,940	13,386,115	23,705,055	....	10,318,940	13,386,115
Atchison, Topeka & Santa Fe	38,366,042	10,177,629	48,543,671	40,332,343	8,211,328	10,383,455	12,001,748	22,385,203	2,172,127	12,001,748	14,173,875	....	2,172,127	12,001,748
Southern Ry	18,595,980	3,100,831	21,696,811	18,151,578	3,545,233	9,316,906	5,791,078	15,107,984	5,771,673	5,791,078	11,562,751	....	5,771,673	5,791,078
Chicago, Milwaukee & St. Paul	27,154,551	1,430,116	28,584,667	25,410,632	3,174,035	7,147,669	7,247,700	14,395,369	3,973,634	7,247,700	11,221,334	....	3,973,634	7,247,700
Baltimore & Ohio	25,894,216	5,275,311	31,169,527	26,083,209	5,086,318	11,489,949	6,749,981	18,239,930	6,403,631	6,749,981	13,153,612	2,823,163	3,580,468	6,749,981
Pittsburgh, Cincinnati, Chicago & St. Louis	11,334,094	331,791	11,665,885	10,810,986	854,899	10,340,174	1,415,279	11,755,453	9,485,275	1,415,279	10,900,554	1,910,367	7,574,908	1,415,279
New York, New Haven & Hartford	16,867,128	6,632,707	23,499,835	19,860,481	3,639,354	10,155,434	2,455,490	12,610,924	6,516,080	2,455,490	8,971,570	....	6,516,080	2,455,490
Southern Pacific	38,021,938	34,419,601	72,441,539	67,064,562	5,376,977	4,967,582	8,451,009	13,418,591	....	8,041,614	8,041,614	....	....	8,041,614
Chicago & North Western	23,201,016	2,856,289	26,057,305	21,963,893	4,093,412	4,270,413	7,691,124	11,961,537	177,001	7,691,124	7,868,125	....	177,001	7,691,124
Philadelphia & Reading	15,868,331	433,272	16,301,603	12,230,845	4,070,758	7,371,136	4,295,615	11,666,751	3,300,378	4,295,615	7,595,993	....	3,300,378	4,295,615
Union Pacific	23,700,009	19,588,260	43,288,269	35,665,438	7,622,831	4,453,545	10,322,253	14,775,798	....	7,152,967	7,152,967	....	....	7,152,967
Buffalo, Rochester & Pittsburgh	3,276,410	132,963	3,409,373	4,237,884	*828,511*	2,000,021	5,243,569	7,243,590	2,000,021	5,243,569	7,243,590	224,272	1,775,749	5,243,569
Michigan Central	8,052,127	644,023	8,696,150	6,835,293	1,860,857	2,428,916	5,681,940	8,110,856	568,059	5,681,940	6,249,999	....	568,059	5,681,940
Chicago, Rock Island & Pacific	15,883,891	1,774,749	17,658,640	16,636,760	1,021,880	4,158,650	3,091,988	7,250,638	3,136,770	3,091,988	6,228,758	....	3,136,770	3,091,988
Cleveland, Cincinnati, Chicago & St. Louis	9,938,597	1,055,002	10,993,599	6,784,448	4,209,151	4,259,484	5,722,627	9,982,111	50,333	5,722,627	5,772,960	....	50,333	5,722,627
Louisville & Nashville	17,310,495	2,386,325	19,696,820	14,751,744	4,945,076	4,974,995	5,457,677	10,432,672	29,919	5,457,677	5,487,596	227,725	....	5,259,871
Chesapeake & Ohio	13,226,983	1,170,060	14,397,043	11,784,205	2,612,838	3,767,645	2,451,386	6,219,031	1,154,807	2,451,386	3,606,193	....	1,154,807	2,451,386
New York, Chicago & St. Louis	2,218,857	283,325	2,502,182	2,403,577	98,605	885,206	2,501,468	3,386,674	786,601	2,501,468	3,288,069	....	786,601	2,501,468
Norfolk & Western	20,534,163	1,070,876	21,605,039	14,209,481	7,395,555	5,422,031	8,043,835	13,465,869	....	6,070,314	6,070,314	2,840,310	....	3,230,004
Seaboard Air Line	6,497,025	251,651	6,748,676	6,446,284	302,392	1,249,034	2,129,694	3,378,728	946,642	2,129,694	3,076,336	....	946,642	2,129,694
St. Louis-San Francisco	13,690,213	392,750	14,082,963	13,681,104	401,859	2,546,698	886,680	3,433,378	2,144,839	886,680	3,031,519	....	2,144,839	886,680
Missouri, Kansas & Texas	5,870,303	298,929	6,169,232	5,178,696	1,290,536	2,361,153	1,817,617	4,178,770	1,070,617	1,817,617	2,888,231	....	1,070,617	1,817,617

Galveston, Harrisburg & San Antonio	3,230,645	334,538	3,565,183	3,477,803	87,380	1,595,533	1,191,056	2,786,589	1,508,153	1,191,056	2,699,209	....	1,508,153	1,191,056
Pennsylvania R. R.	49,973,495	21,260,555	71,234,050	58,507,138	12,726,912	36,457,339	17,979,920	54,037,259	23,730,427	17,579,920	41,310,347	38,730,527	....	2,579,820
Central R. R. of New Jersey	9,352,301	3,795,985	13,148,286	8,889,641	4,258,645	4,050,773	2,281,917	6,332,690	....	2,074,045	2,074,045	....	....	2,074,045
Oregon Short Line	10,196,750	5,232,632	15,429,382	15,259,547	149,855	1,471,883	523,533	1,995,416	1,302,030	523,533	1,825,563	....	1,302,030	523,533
Nashville, Chattanooga & St. Louis	3,182,089	123,525	3,305,614	2,484,237	821,377	1,724,238	956,742	2,680,980	902,861	956,742	1,859,603	51,534	851,327	956,742
Chicago & Alton	3,178,315	132,437	3,310,752	3,824,925	*514,173*	744,797	1,059,512	1,804,309	744,797	1,059,512	1,804,309	....	744,797	1,059,512
Carolina, Clinchfield & Ohio	1,585,157	226,524	1,811,681	1,414,185	397,496	192,424	1,989,030	2,181,454	....	1,783,958	1,783,958	....	....	1,783,958
Pere Marquette	3,748,196	119,962	3,868,158	3,097,559	770,599	685,176	3,618,934	4,304,110	....	3,533,511	3,533,511	1,921,148	....	1,612,363
Wheeling & Lake Erie	1,586,037	180,751	1,766,788	1,245,585	521,203	493,309	1,629,431	2,122,740	....	1,601,537	1,601,537	....	....	1,601,537
Pennsylvania Co.	14,992,785	12,802,634	27,795,419	21,843,697	5,951,722	9,909,617	1,856,377	11,765,994	3,957,895	1,856,377	5,814,272	4,286,888	....	1,527,384
Central of Georgia	3,450,903	681,645	4,132,548	3,798,864	333,684	1,048,283	789,902	1,838,185	714,599	789,902	1,504,501	....	714,599	789,902
Long Island	3,221,949	543,570	3,765,519	3,502,897	262,622	1,286,065	390,500	1,676,565	1,023,443	390,500	1,413,943	....	1,023,443	390,500
Kanawha & Michigan	1,295,141	19,749	1,314,890	830,521	484,369	566,933	1,482,040	2,048,973	....	1,399,476	1,399,476	....	....	1,399,476
Chicago & Eastern Illinois	3,023,383	289,339	3,312,722	3,531,317	*218,595*	1,410,103	1,931,492	3,341,595	1,410,103	1,931,492	3,341,595	1,996,961	....	1,344,634
Toledo & Ohio Central	1,086,651	605,261	1,691,912	1,566,225	425,687	974,884	1,315,641	2,290,525	549,197	1,315,641	1,864,838	582,840	....	1,281,998
Boston & Maine	9,478,075	753,952	10,232,027	8,389,756	1,842,271	3,313,982	443,550	3,757,532	1,471,711	443,550	1,915,261	807,320	664,391	443,550
Hocking Valley	2,637,167	101,903	2,739,070	2,030,560	708,510	1,721,498	94,758	1,816,256	1,012,988	94,758	1,107,746	....	1,012,988	94,758
Virginian Ry	3,247,603	274,035	3,521,638	1,862,753	1,658,885	1,984,019	1,804,487	3,788,506	325,134	1,804,487	2,129,621	1,048,384	....	1,081,237
Monongahela	583,086	8,609	591,695	421,179	170,516	1,275,480	79,451	1,354,931	1,104,964	79,451	1,184,415	125,077	979,887	79,451
Oregon, Washington R. R. & Navigation Co.	4,519,352	544,593	5,063,945	4,788,096	275,849	985,010	240,502	1,225,512	709,161	240,502	949,663	....	709,161	240,502
Gulf, Colorado & Santa Fe	2,824,174	163,673	2,987,847	4,107,765	*1,119,918*	938,721	6,622	945,343	938,721	6,622	945,343	....	938,721	6,622
Florida East Coast	2,842,842	76,057	2,918,899	1,915,941	992,958	920,613	1,010,039	1,930,652	....	937,694	937,694	....	....	937,694
Richmond, Fredericksburg & Potomac	1,137,374	77,943	1,215,317	1,077,805	137,512	312,369	743,060	1,055,429	174,857	743,060	917,917	....	174,857	943,060
West Jersey & Seashore	952,682	130,080	1,082,762	1,006,214	76,548	558,293	418,146	976,439	481,745	418,146	899,891	....	481,745	418,146
Northern Pacific	30,057,760	11,548,366	41,606,126	30,729,361	10,876,765	4,891,569	6,798,585	11,690,154	....	813,389	813,389	....	....	813,389
Maine Central	2,955,697	214,333	3,170,030	2,881,906	288,124	515,065	445,607	960,672	226,941	445,607	672,548	21,392	205,549	445,607
Missouri, Kansas & Texas of Texas	621,773	26,445	648,218	2,561,849	*1,913,631*	650,718	98	650,816	650,718	98	650,816	....	650,718	98
Missouri Pacific	14,273,883	645,021	14,918,904	12,551,286	2,367,618	2,694,814	297,197	2,992,011	327,196	297,197	624,393	....	327,196	297,197
El Paso & Southwestern	4,145,102	2,297,178	6,442,280	6,166,348	275,932	976,133	1,605,623	2,581,756	700,201	1,605,623	2,305,824	1,754,316	....	551,508
Spokane, Portland & Seattle	1,871,083	43,368	1,914,451	3,186,779	*1,272,328*	512,962	14,790	527,752	512,962	14,790	527,752	....	512,962	14,790
Chicago Great Western	2,953,450	103,877	3,057,327	2,525,886	531,441	455,211	602,736	1,057,947	....	526,506	526,506	....	....	526,506
Rutland	1,023,883	55,842	1,079,725	708,642	371,083	443,343	445,447	888,790	72,260	445,447	517,707	....	72,260	445,447
International & Great Northern	1,394,946	4,317	1,399,263	1,742,448	*343,185*	436,535	79,567	516,102	436,535	79,567	516,102	....	436,535	79,567
Pan Handle & Santa Fe	1,330,482	5,867	1,336,349	1,304,422	31,927	673,582	....	673,582	641,655	....	641,655	147,752	493,903	....
Atlanta & West Point	252,995	32,959	285,954	207,779	78,175	372,924	196,798	569,722	294,749	196,798	491,547	....	294,749	196,798
Los Angeles & Salt Lake	3,420,417	48,856	3,469,273	2,577,15	892,117	536,222	824,571	1,360,793	....	468,676	468,676	....	....	468,676
Bessemer & Lake Erie	4,674,714	131,541	4,806,255	2,629,607	2,176,648	1,623,159	1,483,860	3,107,019	....	930,371	930,371	481,360	....	449,011
Kansas City Southern	3,216,698	205,656	3,422,354	2,671,757	750,597	725,364	443,778	1,169,142	....	418,545	418,545	....	....	418,445
Toledo, St. Louis & Western	994,294	83,819	1,078,113	1,145,595	*67,482*	280,934	133,090	414,024	280,934	133,090	414,024	....	280,934	133,090
Gulf, Mobile & Northern	558,338	17,236	575,574	42,682	532,892	905,226	39,889	945,115	372,334	39,889	412,223	....	372,334	39,889
Texas & Pacific	4,107,432	370,848	4,478,280	2,027,502	2,450,778	801,153	2,059,140	2,860,293	....	409,515	409,515	....	....	409,515
Lake Erie & Western	1,548,542	33,382	1,581,924	833,443	748,481	317,550	835,358	1,152,908	....	404,427	404,427	....	....	404,427
Western Maryland	3,079,593	145,103	3,224,696	2,637,963	586,733	1,272,596	672,468	1,945,064	685,863	672,468	1,358,331	958,803	....	399,528
Bangor & Aroostook	1,555,775	19,763	1,575,538	1,535,434	40,104	189,707	236,077	425,784	149,603	236,077	385,680	8,876	140,727	236,077

Estimate of capital expenditures made during 1918 which will have to be financed by the Government—Continued.

Name of road.	Estimated income for 1918.					Capital expenditures made to Dec. 31, 1918.			Capital expenditures made to Dec. 31, 1918, which can not be taken care of out of surplus for 1918.			Open account due companies.	Total capital expenditures to be financed by Government.	
	Standard return.	Other income.	Total income.	Fixed charges and regular dividends.	Estimated surplus after fixed charges and regular dividends.	Road.	Equipment.	Total.	Road.	Equipment.	Total.		Road.	Equipment.
Georgia Railroad Lessee Organization	$858,622	$21,921	$880,543	$740,580	$139,963	$77,692	$397,828	$475,520	....	$335,557	$335,557	....	....	$335,557
Atlanta, Birmingham & Atlantic	358,058	55,822	414,880	473,330	*58,450*	225,431	264,302	489,733	$225,431	264,302	489,733	$158,122	$67,309	264,302
Great Northern	28,666,681	12,786,786	41,453,467	29,670,489	11,782,978	8,706,866	3,406,220	12,113,086	....	330,108	330,108	....	....	330,108
Lehigh & New England	1,135,761	27,881	1,163,642	1,008,406	1,155,236	391,469	34,890	426,359	236,233	34,890	271,123	....	236,233	34,890
Atlantic Coast Line	10,180,915	3,786,757	13,967,672	11,524,830	2,442,842	2,039,117	2,257,314	4,296,431	....	1,853,589	1,853,589	1,593,396	....	60,193
St. Louis Southwestern	3,355,749	389,619	3,745,388	2,733,560	1,011,808	420,965	844,501	1,265,466	....	253,658	253,658	....	....	253,658
Northwestern Pacific	1,235,101	8,077	1,243,178	1,412,446	*169,268*	194,296	56,781	251,077	194,296	56,781	251,077	....	194,296	56,781
Lehigh Valley	11,321,233	4,297,343	15,618,476	13,234,304	2,384,172	2,125,806	627,060	2,752,866	....	368,694	368,694	129,595	....	239,099
Hudson & Manhattan	2,945,114	65,931	3,011,045	3,011,045	....	186,320	6,764	193,084	186,320	6,764	193,084	....	186,320	6,764
Washington Southern	468,433	24,592	493,025	419,562	73,463	60,488	203,443	263,931	....	190,468	190,468	....	....	190,468
Chicago & Erie	225,129	147,348	372,477	700,796	*328,319*	184,250	....	184,250	184,250	....	184,250	....	184,250	....
Staten Island Rapid Transit	350,857	736	351,593	225,011	126,582	665,084	....	665,084	538,502	....	538,502	355,282	183,220	....
St. Louis Southwestern Ry. of Texas	555,165	4,020	559,185	756,480	*197,295*	175,071	....	175,071	175,071	....	175,071	....	175,071	....
Gulf & Ship Island	597,456	12,924	610,380	644,834	*34,454*	113,983	44,933	158,916	113,983	44,933	158,916	....	113,983	44,933
Texas & New Orleans	715,135	52,544	767,679	738,990	28,689	140,574	6,456	147,030	111,885	6,456	118,341	....	111,885	6,456
Norfolk & Southern	1,166,991	54,858	1,221,849	1,070,395	151,454	121,581	143,831	265,412	....	113,958	113,958	....	....	113,958
Central Vermont	779,098	41,718	820,816	823,035	*2,219*	61,530	48,573	110,103	61,530	48,573	110,103	....	61,530	48,573
Lehigh & Hudson River	519,371	9,851	529,222	372,165	157,057	56,826	216,716	273,542	....	116,485	116,485	8,590	....	107,895
San Antonio & Aransas Pass	373,052	3,204	376,256	980,450	*604,194*	82,230	14,797	97,027	82,230	14,797	97,027	....	82,230	14,797
Elgin, Joliet & Eastern	2,862,177	151,173	3,013,350	2,215,366	797,984	389,231	497,054	886,285	....	88,301	88,301	....	....	88,301
Cincinnati, Indianapolis & Western	422,213	7,448	429,661	231,943	197,718	285,142	87,222	372,404	87,424	87,262	174,686	90,654	....	84,032
Port Reading	235,698	31,714	267,412	306,975	*39,563*	82,956	....	82,956	82,956	....	82,956	....	82,956	....
Tennessee Central	162,734	1,797	164,531	685,269	*520,738*	77,907	4,040	81,947	77,907	4,040	81,947	....	77,907	4,040
Detroit, Grand Haven & Milwaukee	146,644	730	147,374	420,108	*272,734*	80,683	2	80,685	80,683	2	80,685	....	80,683	2
Georgia Southern & Florida	511,457	18,804	530,261	465,750	64,511	107,884	19,239	127,123	43,373	19,239	62,612	....	43,373	19,239
Atlantic City	222,066	11,562	233,628	324,980	*91,352*	59,697	....	59,697	59,697	....	59,697	....	59,697	....

Chicago, Peoria & St. Louis	127,540	20,284	147,824	[illegible]	[illegible]	46,696	9,132	55,827	46,696	9,132	55,828		46,696	9,132
Chicago, Terre Haute & Southeastern	922,785	19,712	942,497	827,966	114,531	78,962	83,303	162,265		47,734	47,734			47,734
Detroit, Toledo & Ironton	210,169	10,660	220,829	153,054	67,775	85,374	23,644	109,018	17,599	23,644	41,243		17,599	23,644
Chicago, Indianapolis & Louisville	1,620,259	170,456	1,790,715	1,307,846	482,869	219,324	301,684	521,008		38,139	38,139			38,139
Western Ry. of Alabama	288,238	30,029	318,267	309,776	8,491	56,409	245,438	301,847	47,918	245,438	293,356	257,004		36,352
Fort Worth & Rio Grande	1,000	581	1,581	202,773	*201,192*	31,388		31,388	31,388		31,388		31,388	
Cincinnati Northern	317,628	4,313	321,941	211,087	110,854	106,616	30,480	137,096		26,242	26,242			26,242
Wabash Ry.	5,857,772	302,517	6,160,289	3,635,231	2,525,058	650,576	1,897,670	2,548,246		23,188	23,188			23,188
Midland Valley	444,346	46,715	491,061	474,896	16,165	137,639	48,184	185,823	121,474	48,184	169,658	146,931		22,727
Chicago, Detroit & Canada Grand Trunk Junction	195,203		195,203	89,521	105,682	127,345		127,345	21,663		21,663		21,663	
St. Louis, San Francisco & Texas	*327,035*	891	891	72,520	*71,629*	20,080		20,080	20,080		20,080		20,080	
Ulster & Delaware	128,009	70,189	198,198	225,957	*27,759*	31,153	11,276	42,429	31,153	11,276	42,429	22,547	8,606	11,276
Southern Ry. in Mississippi		69,775	69,775	99,724	*29,949*	15,000	803	15,803	15,000	803	15,803		15,000	803
New York, Susquehanna & Western	800,587	146,665	947,252	722,181	225,071	229,102	10,746	239,848	4,031	10,746	14,777		4,031	10,746
Denver & Salt Lake	353,290	11,207	364,497	430,869	*66,372*	5,331	7,452	12,783	5,331	7,452	12,783		5,331	7,452
Mineral Range	147,432	1,097	148,529	148,118	411	7,742	1,90	9,650	7,331	1,908	9,239		7,331	1,908
Western Pacific	1,900,350	439,614	2,339,964	1,137,705	1,202,259	608,572	1,066,171	1,674,743		472,484	472,484	465,919		6,565
Wichita Falls & Northwestern	145,245	45,112	190,357	345,905	*155,548*	4,360	399	4,759	4,360	399	4,759		4,360	399
Louisville, Henderson & St. Louis	343,916	10,744	354,660	231,159	123,501	124,756	1,414	126,170	1,255	1,414	2,669		1,255	1,414
Ann Arbor	526,883	4,639	531,522	385,753	145,769	114,028	33,633	147,661		1,892	1,892			1,892
Alabama & Vicksburg	322,854	69,075	391,929	370,889	21,040	133,440	4,516	137,956	112,400	4,516	116,916	487,722		
Alabama Great Southern	1,700,513	163,925	1,864,438	1,522,172	342,266	847,200	21,187	868,387	504,934	21,187	525,121	616,089		
Arizona Eastern	1,242,475	46,898	1,289,373	899,703	389,667	160,599	20,237	180,836				261,332		
Atlantic & St. Lawrence				575,109	*575,109*	239,939	(1)	239,939	239,939		239,939	348,128		
Beaumont, Sour Lake & Western	*33,489*	*3,111*	*3,111*	152,324	*155,435*	47,863		47,863	47,863		47,863	68,477		
Buffalo & Susquehanna	592,628	193,709	786,337	775,917	10,420	7,522	1,174	8,696				50,850		
Central New England	1,468,124	64,601	1,532,725	1,097,586	435,139	254,255	4,466	358,721						
Charleston & Western Carolina	466,921	35,822	502,743	415,264	87,479	36,063		36,063				271,092		
Chicago, Burlington & Quincy	33,360,683	1,575,614	34,936,297	19,604,563	15,331,734	7,386,086	4,193,565	11,579,651				961,187		
Cincinnati, New Orleans & Texas Pacific	3,541,040	164,720	3,705,760	2,274,803	1,430,957	1,431,855	375,035	1,803,890	898	375,035	375,933	1,393,321		
Colorado & Southern	2,481,212	1,345,397	3,826,609	3,082,848	743,761	194,081	178,829	372,910				627,217		
Cumberland Valley	1,228,967	117,763	1,346,730	781,065	565,66	511,527	36,311	547,838						
Delaware & Hudson	7,409,600	6,277,937	13,687,537	10,844,057	2,843,480	1,175,991	289,322	1,455,313						
Delaware, Lackawanna & Western	15,749,477	5,932,314	21,681,791	15,853,039	5,828,752	2,192,525	1,436,077	3,628,602						
Denver & Rio Grande	8,319,377	890,724	9,210,101	6,531,338	2,678,763	1,228,010	91,416	1,319,426						
Detroit & Mackinac	310,664	4,981	315,645	223,487	92,158	912		912						
Detroit & Toledo Shore Line	456,512	16,543	473,055	287,633	185,422	19,802	89,658	109,460				77,780		
Duluth & Iron Range	2,355,142	198,082	2,553,224	1,535,236	1,017,988	304,447	418,131	722,578				1,291,447		

Estimate of capital expenditures made during 1918 which will have to be financed by the Government—Continued.

Name of road.	Estimated income for 1918.					Capital expenditures made to Dec. 31, 1918.			Capital expenditures made to Dec. 31, 1918, which can not be taken care of out of surplus for 1918.			Open account due companies.	Total capital expenditures to be financed by Government.	
	Standard return.	Other income.	Total income.	Fixed charges and regular dividends.	Estimated surplus after fixed charges and regular dividends.	Road.	Equipment.	Total.	Road.	Equipment.	Total.		Road.	Equipment.
Duluth, Missabe & Northern	$5,122,051	$131,577	$5,253,628	$3,718,275	$1,535,353	$1,327,033	$39,560	$1,366,593				$843,500		
Duluth, South Shore & Atlantic	594,637	50,460	645,097	960,038	*314,941*	69,901	7,584	77,485	$69,901	$7,584	$77,485	156,717		
Erie	15,503,939	7,283,876	22,787,815	15,255,360	7,532,455	3,131,580	1,811,087	4,942,667				7,898,264		
Fort Worth & Denver City	1,891,386	106,143	1,997,529	1,400,679	596,850	152,947	9,864	162,811				2,180,877		
Grand Rapids & Indiana	929,385	28,148	957,533	714,164	243,369	73,052	23,800	96,852						
Grand Trunk Western	1,012,994	386,657	1,399,651	2,399,282	*999,631*	515,690	808,619	1,324,308	515,690	808,619	1,324,309	1,868,243		
Houston & Texas Central	1,717,506	99,326	1,816,832	792,519	1,024,313	148,415	9,420	157,835						
Houston East & West Texas	375,566	92,376	467,942	318,948	158,994	29,080	272	29,352						
Kansas City, Mexico & Orient	150,000	8,538	158,538	567,883	*409,345*	10,324	740	11,064	10,324	740	11,064	21,090		
Louisiana & Arkansas	407,987	14,862	422,849	413,455	9,394	21,062	2,191	23,253	11,668	2,191	13,859	16,172		
Louisiana Western	895,178	74,038	969,216	726,725	242,491	22,623	6,552	29,175						
Minneapolis & St. Louis	2,639,857	352,619	2,992,476	2,253,532	738,944	190,717	69,278	259,995						
Minneapolis, St. Paul & Sault Ste. Marie	11,807,523	645,795	12,453,318	11,305,101	1,148,217	711,785	77,303	789,088						
Minnesota & International	202,455	27,796	230,251	161,100	69,151	33,224	275	33,499						
Missouri & North Arkansas	13,146	9,269	22,415	163,443	*141,028*	16,815	2,675	19,490	16,815	2,675	19,490	213,394		
Mobile & Ohio	2,578,203	48,028	2,626,231	2,030,519	595,712	356,070	32,764	388,834						
Morgans Louisiana-Texas R. R. & S. S. Co.	1,188,526	86,035	1,274,561	624,664	649,897	93,685	220,074	313,759						
New Orleans & Northeastern	1,007,931	246,133	1,254,064	828,003	426,061	171,184	627,884	799,068		373,007	373,007	713,853		
New Orleans Great Northern	575,952	6,845	582,797	474,401	108,396	49,860	24,636	74,496						
New Orleans, Texas & Mexico	218,773	884,788	1,103,561	969,153	134,408	26,133	5,548	31,681				1,282,002		
New York, Ontario & Western	2,103,589	164,533	2,268,122	1,507,137	760,985	127,914	82,644	210,558				714,972		
Pittsburgh & Lake Erie	8,980,219	397,746	9,377,965	5,884,899	3,493,066	1,499,334	1,151,070	2,650,404				170,642		

Pittsburgh & Shawmut	182,817	644,989	1,127,80	885,544	242,261	335,554	1,316	336,870	93,293	1,316	94,609	137,772			
Pittsburgh & West Virginia	237,010	839,936	1,076,946	347,630	729,316	340,307	249,492	589,799				234,385			
St. Joseph & Grand Island	373,811	3,695	377,506	208,559	168,947	121,506	17,463	138,969							
St. Louis, Brownsville & Mexico	983,890	26,407	1,010,297	865,689	144,608	30,396	11,202	41,598							
Toledo, Peoria & Western	159,740	11,303	171,043	155,177	15,866	19,699	6,442	26,141	3,833	6,442	10,275	107,425			
Vicksburg, Shreveport & Pacific	337,948	51,673	389,621	352,758	36,863	107,119	5,474	112,593	70,276	5,474	75,730	467,177			
Wichita Valley	352,367	10,453	362,820	270,849	91,971	20,348	291	20,639				72,439			
Yazoo & Mississippi Valley	3,862,318	86,056	3,948,374	1,792,613	2,155,761	1,713,681	7,902	1,721,583							
Open account not applicable to additions and betterments												*20,372,195*			
Advances to car and locomotive builders							57,930,129	57,930,129		57,930,129	57,930,129			70,585,827	57,930,129
Miscellaneous									*3,973,634*	*7,247,700*	*11,221,334*			*3,973,634*	*7,165,136*
Grand total	[1]891,295,679	229,284,457	1,120,580,135	911,120,222	[2]209,459,914	283,945,575	289,388,544	573,334,119	111,388,455	247,734,474	359,122,929	68,204,646			220,332,456
Total road and equipment															290,918,283

[1] This statement includes Class I roads and the Hudson & Manhattan Co. only as complete information for the other companies included in the total standard return of $928,314,372 was not available. It is believed, however, that the figures given above indicate in the aggregate the approximate amount of financing which the Government will be required to take care of.

[2] The difference between this figure and the figure of $214,211,190, shown on Schedule B, as amount of companies' income which can be applied to additions and betterments, is due to the inclusion of deficits and surplus income after taking care of additions and betterments, whereas the figure of $214,211,190 (which is the difference between the total capital expenditures made to Dec. 31, 1918, viz, $573,334,119, and the total capital expenditures which it is estimated can not be taken care of out of surplus, viz, $359,122,929) represents the surplus which it is estimated can be actually applied to expenditures for additions and betterments.

NOTE.—The detail of the estimated income account by individual roads on this statement is based on the results for 1917, as reported to the Interstate Commerce Commission, and estimates of war taxes and the expenses of the corporate organization in 1918. It is possible, therefore, that the actual figures for 1918 for individual roads may differ from the estimated figures shown above. It is believed, however, that the aggregate of these individual estimates will closely approximate the total amount of financing of expenditures for additions and betterments in 1918 that will have to be taken care of by the Government.

BETTERMENTS.

The CHAIRMAN. You testified, Mr. Hines, that $290,000,000 had been paid out by the Government in the form of betterments to the railroads during the calendar year of 1918, that one-half of that represented equipment, speaking in a general way, and that one-half was in the way of additions and betterments, pure and simple. That is correct?

Mr. HINES. I think there is a misunderstanding if I am reported as saying that the $269,000,000 is divided equally between equipment and road. The fact is that the road would represent a little less than one-third and the equipment two-thirds.

The CHAIRMAN. Your figures are $290,000,000 for betterments?

Mr. HINES. Yes, sir. Of course, there would have to be some arbitrary division between improvements to road and acquisition of equipment, because we give a total figure for improvements to road and for equipment, and then we deduct from that certain things. It is purely a question of bookkeeping whether you deduct more from road or from equipment, and probably we would want to deduct more from road, certainly in many cases, because that would be a better security for the equipment. It would be a question then of how that is worked out so as to give us the best security in each case. Broadly speaking, the amount involved represents about one-third improvements to road and two-thirds acquisition of equipment.

The CHAIRMAN. I do not know that I follow you. If I understand it, you have actually spent or obligated yourself for physical things which you speak of under the general term of "betterments" to the extent of $290,000,000?

Mr. HINES. I will explain how the $290,000,000 item is arrived at. In the calendar year 1918 there was expended for additions and betterments to road $283,945,575, and for equipment $289,388,544. This made a total of capital expenditures for the calendar year 1918 of $573,334,119. We then estimated what part of the rental of each company was available to apply under the contract in payment for these capital expenditures, and we applied the surplus rental, first, to the improvements to road and then, if any surplus rental still remained, we applied the balance to equipment. After making this application it appeared that there remained capital expenditures not taken care of by the permissible deductions from rental, of improvements to road, $111,388,455, and acquisition of equipment, $247,734,474, or a total of $359,122,929. There remain still to be deducted amounts which the Government owes the railroad companies on open account of $68,204,646 which, under the contract, can be deducted, with the result that there will still remain due by the companies for additions and betterments to road and for equipment for the calendar year 1918, the sum of $290,918,283. The application of the last-mentioned deduction of $68,204,646 by companies and through the primary application thereof to improvements to roads, is now being worked out, and when that is worked out I can then give the final figures as to what part of the $290,918,283 represents additions and betterments to roads and what part represents equipment.

The CHAIRMAN. And until that is worked out there can not be ascertained the total advances in the way of capital account which the Government has made toward any particular road?

Mr. HINES. Yes; but that is being worked out to-day.

The CHAIRMAN. You would be able to supply then a table which will show practically the extent to which the Government has made advances that it will not now recoup itself for to each of the railroads?

Mr. HINES. Yes.

The CHAIRMAN. Now, what determined the total of five hundred and seventy-three million and odd dollars that you put into betterments?

Mr. HINES. Shortly after the Government took possession of the railroads we called on the railroad companies which were still in possession of the properties as agents for the Government to submit budgets of the capital expenditures which in their opinion were necessary for the calendar year 1918. We emphasized that on account of the heavy demand for materials and labor and on account of the difficulties as to financing these capital expenditures should be restricted to those that were essential. As a result of this request the corporations submitted budgets which showed a total of over $1,300,000,000 of capital expenditures which they represented as essential for the calendar year 1918. The Division of Capital Expenditures was created in our organization with Judge R. S. Lovett as the director in charge of the division, and he, acting in conjunction with the regional directors, undertook to revise those budgets and cut items which appeared not to be sufficiently essential to justify authorization in time of war. As a result the budgets were reduced to something over $900,000,000. Subsequently, and principally on account of the additional equipment which was felt it was necessary to order, the total amount authorized during the year 1918 increased until it was about $1,300,000,000, close to the figure originally proposed by the corporations themselves, but slightly below that figure.

The difficulties in the way of making improvements and obtaining equipment on account of the scarcity of material and the scarcity of labor were such that this program could only be carried out in fact to the extent of the $573,000,000 which I have mentioned. So that the expenditure made was made as the result of budgets made and revised, as I have pointed out, on the theory that the things proposed were essential even in time of war, and the amount actually expended was greatly below the authorization on account of the difficulties in the way of getting materials and labor. Attention was given throughout the year to expediting those expenditures which were most needed for war purposes. At the outset preference was given to a study of the requirements on the Pennsylvania Railroad, where to a greater extent than anywhere else the newly created war industries were established. So that, broadly speaking, I should say that the expenditure of $573,000,000 represented what was actually practicable to expend in carrying out a program which had been adopted with a view to what was needed from the standpoint of the war necessities.

The CHAIRMAN. How far was the original estimate that was submitted by the railroad companies in response to your inquiry as to their view of the capital expenditures necessary for 1918, the estimate that they had for themselves at a time when they might look forward to their own financing, and how far was it predicated upon the idea that the Government was going to do the financing?

Mr. HINES. I do not believe we have any way of giving an accurate statement on that. As to some of the important companies, which

made a practice of getting up a budget at the beginning of each year. I am satisfied that they simply gave the budget that they had already prepared when they had not foreseen Government control. In the case of some companies, and I think it is notably true of the Pennsylvania, the budget proposed was one which was proposed with direct reference to war needs, and I am disposed to assume it was exactly what the company would have proposed anyhow; but in any event, it was very largely controlled by actual war necessities. It is not practicable, however, in my opinion, certainly within a reasonable time, to have an analysis made which would give a really thorough answer to the question you ask.

The CHAIRMAN. The reason for my inquiry was to draw an inference, if one might draw it, as to how far the railroads would have been forced to have gone forward with these betterments if they had continued in control in order to maintain themselves under the conditions that confronted them, and how far they represent a desire to finance things that were wished for and yet might not have been undertaken if they had had to do the financing themselves.

Mr. HINES. I believe in view of the instructions given that that was not a very important motive in making up any of the large budgets. In instructions which were given on February 2, 1918, when the budget was first called for, the Director General laid down this rule. He said:

In determining what additions and betterments, including equipment, and what road extensions should be treated as necessary, and what work already entered upon should be suspended, please be guided by the following general principles.

(a) From a financial standpoint it is highly important to avoid the necessity for raising any new capital which is not absolute necessary for the protection and development of the required transportation facilities to meet the present and prospective needs of the country's business under war conditions. From the standpoint of the available supply of labor and material it is likewise highly important that this supply shall not be absorbed except for the necessary purposes mentioned in the preceding sentence.

(b) Please also bear in mind that it may frequently happen that projects which might be regarded as highly meritorious and necessary when viewed from the separate standpoint of a particular company may not be equally meritorious or necessary under existing conditions when the Government has possession and control of the railroads generally, and therefore when the facilities heretofore subject to the exclusive control of the separate companies are now available for common use, whenever such common use will promote the movement of traffic.

Now, the original budget, as proposed by the corporations, aggregated $1,329,000,000, and they were reduced to $975,000,000. So I believe that to any extent there may have been the sort of motive you suggest it was to cut out in the revision that took place.

The CHAIRMAN. And that revision then went through another revision upward that brought you back practically to where you were before?

Mr. HINES. That was largely through the addition of this large amount of equipment. I might say that general instructions issued a little later on, March 21, were to the effect that the construction of new lines or branches or extensions of existing lines shall not be entered upon or contracted for without the Director General's approval, and there are various limitations to prevent the corporations themselves going ahead on their own initiative on any large projects until they were advised.

The CHAIRMAN. In view of the fact that the railroads themselves asked for betterments in excess of anything that was done, are they

now admitting their liability for the betterments that have been made at the cost at which they were made?

Mr. HINES. The contract we have made provides that the fact that any addition or betterment was made at a given price shall not be a basis for the assertion of a claim for damages. In other words, the contract entitles the Government to collect the full war price that it had to pay for any improvement or equipment that it ordered the company to make or acquire, provided the fact of reasonable necessity is established; that is, the question of price will not be an issue in view of the provisions of the contract. Now, as to additions and betterments to ways and structures, I should say that what was done was very much below what the corporations themselves recommended.

So I do not believe there will be any basis, except in a very unusual case and clearly an exceptional case, to claim the thing which the Government did was not reasonably necessary. As to equipment, the same thing is substantially true of locomotives. The locomotives ordered by the Government were practically no more than what the corporations themselves had proposed, with one or two slight exceptions. There will be more basis for a contention about the cars, and yet the total number of cars ordered represented no more than the annual wastage of cars; and I believe that while there has been a great deal of reluctance on the part of the companies to accept the cars, they will have very little success in attacking the ordering of the cars or the allocation of them.

The CHAIRMAN. From that I judge that you expect that the $573,000,000 worth of capital investment will substantially have to be admitted and accepted by the railroads?

Mr. HINES. I think that is true, and eventually I think they will have to come to that.

The CHAIRMAN. How far are they contesting it?

Mr. HINES. So far there is no actual contest started. A few of the companies up to the present time have been unwilling to accept the allocation of cars. Practically all of them have accepted the allocation of locomotives, and I think there is virtually no attack on the additions and betterments.

The CHAIRMAN. How much of the $573,000,000 went into cars?

Mr. HINES. The maintenance of way expenditures for the calendar year 1918 were $265,967,131. The equipment expenditures for 1918 were $289,802,068. Of those equipment expenditures a very large part represented equipment which had been ordered by the companies themselves prior to Federal control, but which was not delivered until during Federal control, so that practically half of the $289,802,000 of equipment represents equipment that the companies themselves ordered and as to which there could be no possibility of controversy. The other half approximately represents equipment ordered by the Railroad Administration, but of that amount $40,329,902 represents locomotives, as to which there is practically no dispute, and only $77,186,000 represents cars, as to part of which there may be some dispute but which I think will not be successful.

The CHAIRMAN. Suppose you put in the record at this point this table which purports to show expenditures from January 1st to December 31, 1918, in connection with work chargeable to capital account by classes of work for class 1 railroads.

Mr. HINES. Yes.

(The statement referred to follows:)

Expenditures from Jan. 1 to Dec. 31, 1918, in connection with work chargeable to capital account, by classes of work, for Class I railroads.

Widening cuts and fills, filling trestles, etc	$4,478,500
Ballasting	4,745,625
Rails and other track material	16,120,490
Bridges, trestles, and culverts	23,977,592
Tunnel and subway improvements	1,033,780
Track elevations or depressions	3,604,875
Elimination of grade crossings	4,601,273
Grade crossings and crossing signals	1,026,615
Additional main tracks	31,738,070
Additional yard tracks, sidings, and industry tracks	61,614,230
Changes of grade or alignment	3,378,600
Signals and interlocking plants	6,775,725
Telegraph and telephone lines	2,962,47[illegible]
Roadway machinery and tools	1,472,070
Section houses and other roadway buildings	2,436,689
Fences and snowsheds	1,054,629
Freight and passenger stations, office buildings	18,513,512
Hotels and restaurants	496,950
Fuel stations and appurtenances	4,653,293
Water stations and appurtenances	6,593,980
Shop buildings, engine houses, and appurtenances	32,612,789
Shop machinery and tools	8,485,07[illegible]
Electric power plants, substations, etc	6,904,590
Wharves and docks	1,810,735
Coal and ore wharves	4,771,028
Grain elevators and storage warehouses	1,935,470
Real estate	410,620
Assessments for public improvements	1,532,604
All other improvements	6,225,319
Total (excluding equipment)	265,967,131
Locomotives, steam	64,125,500
Locomotives, steam, ordered by United States Railroad Administration	40,329,902
Locomotives, other	985,320
Freight-train cars	73,423,032
Freight-train cars, ordered by United States Railroad Administration	77,186,507
Passenger-train cars	9,475,326
Work equipment	1,959,616
Motor car and trailers	55,327
Floating equipment	820,195
Miscellaneous equipment	425,300
Improvements to existing equipment	21,016,043
Total equipment	289,802,068
Construction of extensions, branches, and other lines	17,564,920
Total all work	573,334,119

NOTE.—Actual for 11 months to Nov. 30, 1918; estimated for December.

Expenditures from Jan. 1 to Dec. 31, 1918, in connection with work chargeable to capital account for class 1 railroads.

Alabama & Vicksburg Ry	$137,956
Alabama Great Southern Ry	868,387
Ann Arbor R. R	147,661
Arizona Eastern R. R	180,836
Atchison, Topeka & Santa Fe Ry	22,385,203
Atlanta & West Point R. R	569,722
Atlanta, Birmingham & Atlantic Ry	489,733
Atlantic & St. Lawrence R. R	239,939
Atlantic City R. R	59,697
Atlantic Coast Line R. R	4,296,431
Baltimore & Ohio R. R. (including Coal & Coke)	18,239,930

Bangor & Aroostook R. R.	$425,784
Beaumont, Sour Lake & Western Ry	47,863
Bessemer & Lake Erie R. R.	3,107,019
Boston & Maine R. R.	3,757,532
Buffalo & Susquehanna R. R.	8,696
Buffalo, Rochester & Pittsburgh Ry	7,243,590
Carolina, Clinchfield & Ohio Ry	2,181,454
Central of Georgia Ry	1,838,185
Central New England Ry	358,721
Central R. R. of New Jersey	6,332,690
Central Vermont Ry	110,103
Charleston & Western Carolina Ry	36,063
Chesapeake & Ohio Ry	6,219,031
Chicago & Alton R. R.	1,804,309
Chicago & Eastern Illinois R. R.	3,341,595
Chicago & Erie R. R.	184,250
Chicago & North Western Ry	11,961,537
Chicago, Burlington & Quincy R. R.	11,579,651
Chicago, Detroit & Canada Grand Trunk Junction R. R.	127,345
Chicago Great Western R. R.	1,057,947
Chicago, Indianapolis & Louisville Ry	521,008
Chicago, Milwaukee & St. Paul Ry	14,395,369
Chicago, Peoria & St. Louis R. R.	55,828
Chicago, Rock Island & Pacific Ry. (including C. R. I. & G. Ry.)	7,250,638
Chicago, St. Paul, Minneapolis & Omaha Ry	948,950
Chicago, Terre Haute & Southeastern Ry	162,265
Cincinnati, Indianapolis & Western R. R.	372,404
Cincinnati, New Orleans & Texas Pacific Ry	1,806,890
Cincinnati Northern R. R.	137,096
Cleveland, Cincinnati, Chicago & St. Louis Ry	9,982,111
Colorado & Southern Ry	372,910
Cumberland Valley R. R.	547,838
Delaware & Hudson R. R.	1,465,313
Delaware, Lackawanna & Western R. R.	3,628,602
Denver & Rio Grande R. R.	1,319,426
Denver & Salt Lake R. R.	12,783
Detroit & Mackinac Ry	912
Detroit & Toledo Shore Line R. R.	109,460
Detroit, Grand Haven & Milwaukee Ry	80,685
Detroit, Toledo & Ironton R. R.	109,018
Duluth & Iron Range R. R.	722,578
Duluth, Missabe & Northern Ry	1,366,593
Duluth, South Shore & Atlantic Ry	77,485
Elgin, Joliet & Eastern Ry	886,285
El Paso & Southwestern R. R.	2,581,756
Erie R. R.	4,942,667
Florida East Coast Ry	1,930,652
Fort Worth & Denver City Ry	162,811
Fort Worth & Rio Grande Ry	31,388
Galveston, Harrisburg & San Antonio Ry	2,786,589
Georgia R. R. Lessee Organization	475,520
Georgia Southern & Florida Ry	127,123
Grand Rapids & Indiana Ry	96,852
Grand Trunk Western Ry	1,324,309
Great Northern Ry	12,113,086
Gulf & Ship Island R. R.	158,916
Gulf, Colorado & Santa Fe Ry	945,343
Gulf, Mobile & Northern R. R.	945,115
Hocking Valley Ry	1,816,256
Houston & Texas Central R. R.	157,835
Houston, East & West Texas Ry	29,352
Hudson & Manhattan R. R.	193,084
Illinois Central R. R.	24,830,199
International Great Northern Ry	516,102
Kanawha & Michigan Ry	2,048,973
Kansas City, Mexico & Orient R. R. (including Kansas City, Mexico & Orient Ry. Co. of Tex.)	11,064
Kansas City Southern Ry	1,169,142

Lake Erie & Western R. R.	$1, 152, 90
Lehigh & Hudson River Ry	273, 54
Lehigh & New England R. R.	426, 35
Lehigh Valley R. R.	2, 752, 86
Long Island R. R.	1, 676, 56
Los Angeles & Salt Lake R. R.	1, 360, 79
Louisiana & Arkansas Ry	23, 25
Louisiana Western R. R.	29, 17
Louisville & Nashville R. R.	10, 432, 67
Louisville, Henderson & St. Louis Ry	126, 17
Maine Central R. R.	960, 67
Michigan Central R. R.	8, 110, 85
Midland Valley R. R.	185, 82
Mineral Range R. R.	9, 65
Minneapolis & St. Louis R. R.	259, 99
Minneapolis, St. Paul & Sault Ste. Marie R. R	789, 08
Minnesota & International Ry	33, 49
Missouri & North Arkansas R. R.	19, 49
Missouri, Kansas & Texas Ry	4, 178, 77
Missouri, Kansas & Texas Ry. of Texas	650, 81
Missouri Pacific R. R.	2, 992, 01
Mobile & Ohio R. R.	388, 83
Monongahela Ry	1, 354, 93
Morgan's Louisiana & Texas R. R. & S. S. Co	313, 75
Nashville, Chattanooga & St. Louis Ry	2, 680, 98
New Orleans & Northeastern R. R.	799, 06
New Orleans Great Northern R. R.	74, 49
New Orleans, Texas & Mexico Ry	31, 68
New York Central R. R. (including Boston & Albany)	38, 421, 80
New York, Chicago & St. Louis R. R.	3, 386, 67
New York, New Haven & Hartford R. R	12, 610, 92
New York, Ontario & Western Ry	210, 55
New York, Philadelphia & Norfolk R. R.	274, 37
New York, Susquehanna & Western R. R.	239, 84
Norfolk & Western Ry	13, 465, 86
Norfolk Southern R. R.	265, 41
Northern Pacific Ry	11, 690, 15
Northwestern Pacific R. R.	251, 07
Oregon Short Line R. R.	1, 995, 41
Oregon-Washington R. R. & Navigation Co	1, 225, 51
Panhandle & Santa Fe Ry	673, 58
Pennsylvania Co., lines west	11, 765, 99
Pittsburgh, Cincinnati, Chicago & St. Louis R. R	11, 755, 45
Pennsylvania R. R., lines east	54, 037, 25
Pere Marquette Ry	4, 304, 11
Philadelphia & Reading Co	11, 666, 75
Pittsburgh & Lake Erie R. R.	2, 650, 40
Pittsburgh & Shawmut R. R.	336, 87
Pittsburgh & West Virginia Ry	589, 79
Port Reading R. R.	82, 95
Richmond, Fredericksburg & Potomac R. R.	1, 055, 43
Rutland R. R.	888, 79
St. Joseph & Grand Island Ry	138, 96
St. Louis, Brownsville & Mexico Ry	41, 59
St. Louis-San Francisco Ry	3, 433, 37
St. Louis, San Francisco & Texas Ry	20, 08
St. Louis Southwestern Ry	1, 265, 46
St. Louis Southwestern Ry. of Texas	175, 07
San Antonio & Aransas Pass Ry	97, 02
Seaboard Air Line	3, 378, 72
Southern Pacific Co	13, 418, 59
Southern Ry	15, 107, 98
Southern Ry. in Mississippi	15, 80
Spokane, Portland & Seattle Ry	527, 75
Staten Island Rapid Transit Ry	665, 08
Tennessee Central R. R.	81, 94
Texarkana & Ft. Smith Ry. (included in K. C. S.).	
Texas & New Orleans R. R.	147, 03
Texas & Pacific Ry	2, 860, 29

Toledo & Ohio Central Ry	$2,290,525
Toledo, Peoria & Western Ry	26,141
Toledo, St. Louis & Western R. R	414,024
Ulster & Delaware R. R	42,429
Union Pacific R. R	14,775,798
Vicksburg, Shreveport & Pacific Ry	112,593
Virginian Ry	3,788,506
Wabash Ry	2,548,246
Washington-Southern Ry	263,931
Western Maryland Ry	1,945,064
Western Pacific R. R	1,674,743
Western Ry. of Alabama	301,847
West Jersey & Seashore R. R	976,439
Wheeling & Lake Erie Ry	2,122,740
Wichita Falls & Northwestern Ry	4,759
Wichita Valley R. R	20,639
Yazoo & Mississippi Valley R. R	1,721,583
Cash advanced on undelivered equipment	57,930,129
Grand total	573,334,119

NOTE.—Actual for eleven months to November 30, 1918, estimated for December.

Description of equipment ordered in 1918.

LOCOMOTIVES.

Type.	Average tractive power.	Number.	Total tractive power.
	Pounds.		*Pounds.*
Light Mikado	54,600	731	39,900,000
Heavy Mikado	60,000	290	17,400,000
Light mountain	53,900	35	1,890,000
Heavy mountain	58,000	15	870,000
Light Pacific	40,700	59	2,400,000
Heavy Pacific	43,800	20	877,000
Light Santa Fe	69,400	94	6,520,000
Heavy Santa Fe	74,000	175	12,950,000
Light Mallet	80,300	30	2,410,000
Heavy Mallet	106,000	121	12,850,000
6-wheel switch	39,100	255	10,000,000
8-wheel switch	51,200	175	8,950,000
Reading consolidated	50,000	30	1,500,000
Total	58,400	2,030	118,517,000

FREIGHT TRAIN CARS.

Type.	Number.	Total capacity.
		Tons.
50-ton single-sheathed box	25,000	1,250,000
40-ton double-sheathed box	25,000	1,000,000
50-ton gondola	20,000	1,000,000
55-ton hopper	25,000	1,375,000
70-ton gondola	5,000	350,000
Total	100,000	4,975,000

MONDAY, FEBRUARY 10, 1919.

The CHAIRMAN. Mr. Hines, in response to a request of mine you have prepared and submitted to me a sheet that purports to show the allocation to the various roads of approximately $214,000,000, which represents that part of the compensation to be paid the roads which is over and beyond their need in the way of meeting their fixed charges and dividends; and this table purports to show, first,

the standard return, other income, total income, fixed charges, and regular dividends, estimated surplus after fixed charges and regular dividends, capital expenditures made by the Government to December 31, 1918, and which is subdivided under the heads of road and equipment, and the capital expenditure made to that same date which can not be taken care of out of the surplus I have spoken of; an open account due the company, and a final column showing the total capital expenditures to be financed by the Government, which latter column makes the total of $290,000,000 that we have been dealing with in your previous testimony.

Now, I note in a hurried examination of the sheet that apparently in those instances in which there is an estimated surplus after fixed charges and regular dividends out of the standard return, that it has been applied as an offset to the charge against the road for capital expenditures made to the road as contradistinguished to capital expenditures made for equipment. Is there any purpose other than simply to state in a bookkeeping way the net that flows from the making of these credits, for placing it against roads rather than against equipment?

Mr. HINES. There is a general principle which has guided us in adopting that method, and that is, that practically without exception the roadway of all the railway companies is covered by mortgages already, and nearly always those mortgages are closed or any remaining bonds available under them are so allocated to special purposes that we could not get satisfactory bonds secured by mortgage to reimburse us for those betterments to roads. On the contrary, it is true practically without exception that all new equipment which is added to the company's plant can be made the basis of a separate and exclusive security to secure the amount due for that particular equipment.

So that broadly speaking, we have figured that it would be to our advantage to let the surplus income pay for the additions to roads as to which we could not get a satisfactory mortgage security, and then leave the corporation to pay us through the issue of notes for the equipment, as to which we could retain the equipment as a separate and exclusive security. We have acted on that general principle in making up this statement. It may turn out to be true in a particular case that a company may have available security for the additions to roadway which will turn out, when all the factors are weighed, to be more satisfactory than the security it could give for the equipment, and in that event we would make the application of the surplus to the equipment and require the additions to roadbed to be paid for by the better security, so that that is not finally controlling in all cases, but as a general principle it represents the course which seems to give the Government the best security.

The CHAIRMAN. In other words, this statement is purely a financial summary predicated upon a certain basis which is not necessarily the controlling basis in the actual adjustment of accounts with the various railroads?

Mr. HINES. That is true, although we believe that that is likely to be found to be the best basis in most cases; but it is subject to revision in each case according to the merits of that case.

The CHAIRMAN. A note to the table indicates that the statement is based upon results for 1917 as reported to the Interstate Commerce

Commission, and estimates for war taxes and expenses of the corporate organizations in 1918; and goes on to say that the actual figures therefore may differ from the estimated figures, but it is believed that this is a close approximation of the situation. We will place the statement in the record.

(The statement referred to appears at pages 102–107 of the record.)

The CHAIRMAN. I do not know but what it has been covered in a general way heretofore, but I would like to make it clear for the record that in making these betterments they have been made from the standpoint of the Railroad Administration's view of the need in connection with the use of the roads during this war period and not in relationship to the desires or requests of the roads themselves.

Mr. HINES. That is the case. In the first place, the corporations, while they were still operating the properties as agents for the Director General, were requested to submit budgets as to what they thought was desirable, but were requested in submitting those budgets to be governed by the standards laid down by the Director General which you have briefly summarized in your question. Then those budgets were revised by our regional directors and also by our director of the Division of Capital Expenditure, in order to make sure that those standards were applied. So that the result is that the policy you have indicated in your question is the policy which has governed the determination of the expenditures which were made during 1918.

The CHAIRMAN. If I correctly recall your testimony the other day, it was that the Railroad Administration, without regard now to when the betterments would be completed and would need to be paid, had actually undertaken betterments somewhat in excess of $1,000,000,000?

Mr. HINES. Last year the authorities that were given aggregated for the year close to $1,300,000,000. To the extent to which those expenditures were not actually made in 1918 the policy is that there must be a new authorization, and those authorization are now being considered. So the fact that an authorization was made last year does not necessarily indicate that it will be carried out this year, because it will be reconsidered on its merits in the light of the changed conditions.

The CHAIRMAN. Are we to understand by that, then, that the total commitment of the Government as a commitment in the sense of involving third party claims and Government liability as such is represented by the statement that has been made as to expenditures for 1918?

Mr. HINES. No; I do not think that would be entirely correct, because as a practical matter a very considerable program must be met in 1919. It is unavoidably connected with the responsibility of the Government to operate the properties.

The CHAIRMAN. I was not dealing with it just from that angle and I am not talking about the need to go forward, but I am trying to arrive at a determination of the actual liability. The Government has ordered certain betterments done, either in the way of cars or locomotives, or of track improvements or what not, certain capital expenditures; now, it is responsible for those expenditures to the people who did the work, without regard, I take it, to its right to reimbursement from the railroads for whom it has made the ex-

penditures. What I am trying to arrive at is the extent to which the Government is actually committed as a legal proposition in the way of obligation or liability.

Mr. HINES. In that sense the Government is now definitely committed to pay approximately $286,000,000 for equipment which is yet to be delivered, and which was ordered by the Government during 1918, and the contracts for which were made in the name of the Government. In addition to that, it is undoubtedly true that various contracts for additions and betterment work to roadway and structures were made in 1918 which were not completed in that year, and in respect of which the Government has a liability, but the extent of that liability as to way and structures has not been analyzed to see what the precise amount of it is.

We could get the figures on that if it would be helpful to you, but this is always to be borne in mind as to those matters, that to a very considerable extent it would be a question of reopening the matter and possibly where the work had not been entered on and the material had not been ordered, theoretically, and if the work were not indispensable on its own merits, we might get a release, so as to the additions and betterment program I have been looking at it broadly on the theory that during 1919 we would not do anything that from a practical standpoint would not have to be done, and the fact that a contract had been made or had not been made has not occurred to me as the controlling factor, although in some cases it will prove to be. As to the equipment, though, that is a clear-cut obligation. Immediately after the armistice we made a very thorough study of the matter with the equipment companies to see the extent to which those contracts could be canceled, and we found they had gone so far in the ordering of their materials and the fabrication of the work that they could not be canceled.

The CHAIRMAN. If I understand you now, there is an obligation in a legal sense resting upon the Government touching capital investments for the present calendar year over and beyond what we have dealt with in the way of $290,000,000 of investments of $286,000,000?

Mr. HINES. Yes; $286,000,000 for equipment; and, Mr. Chairman, I might add that in addition to the $286,000,000 for rolling stock for the railroads for which the Government is obligated, it it obligated for practically all the $12,000,000 for waterway equipment.

The CHAIRMAN. Now, these two sums represent the residuum after cancellations and a canvass of the situation in its details?

Mr. HINES. They do.

The CHAIRMAN. So that in asking in your budget for $386,000,000, in round figures, under the head of capital expenditure for next year, you are asking practically to the extent of all but about $70,000,000 for meeting obligations that the Government has incurred and must meet?

Mr. HINES. By "next year" you mean this calendar year, 1919?

The CHAIRMAN. Yes.

Mr. HINES. That is true; that is, all but $70,000,000 of it will be needed to meet obligations for equipment for the railroads and for the waterways that the Government has already definitely assumed. Of that $70,000,000 an additional $20,000,000 represents a very positive commitment with respect to the Boston & Maine reorganization, which has gone through on the faith of the Government's representation that it would protect that reorganization.

The CHAIRMAN. Of course, this might be materially changed in amounts if the assumption that the roads could and should finance their own capital investments for this calendar year was carried out, because you presumably could reduce by $150,000,000, which you estimate as your surplus leeway in connection with your rentals over and beyond fixed charges and dividends for the railroads for this year? Do I make myself clear? In other words, if it were to be assumed as a premise that the Government should not undertake to do any financing in connection with capital investment for the railroads, the fact that you have outstanding obligations of the Government for this calendar year which would aggregate close to $300,000,000 would not necessarily represent a need for that amount of money in order to pay them, because there is figured in your financial statement for this calendar year, just as there was figured in the past calendar year, a surplus out of the rentals over and beyond the sums necessary to enable the railroads to meet their fixed charges, including their dividends, a sum which could be applied in reduction of that governmental obligation.

Mr. HINES. That is true; that if we could count on the corporations financing a greater amount than we have assumed for 1919, that would thereby aid in reducing this amount. There is involved there, however, the very important element of time; that these amounts must be met very early in the year, and, in the nature of things, it will require a substantial time to work out any very considerable program of corporate financing.

The CHAIRMAN. However, your returns come in from month to month for operating the roads, and assuming that $150,000,000 could be applied, which is your assumption, as against the $214,000,000 of the past year, you could from time to time be applying that on these obligations of the Government to third parties in connection with equipment? Of course, all of this is predicated upon an assumption that the railroads should be and would be able to finance themselves for the future.

Mr. HINES. Yes. There is involved in that assumption, in order to give the application you suggest, that month by month we could release Government money by independent financing to take care of all these other necessary capital expenditures for 1919, and that is a very serious difficulty, because while by the end of the year they may be able to finance a very substantial part of these requirements I do not anticipate that in the next three or four months they can possibly raise their money rapidly enough to keep up with the other capital expenditures which must be made. I would like to emphasize this further point, if it does not interrupt your line of thought: I think everybody recognizes the extreme importance, from the general public standpoint, of going ahead with necessary and desirable industrial work as rapidly as possible so as to help the general industrial situation.

I think very clearly it is to the interest of the Government, if it should develop that the corporations are able to finance to a larger extent than has been anticipated, that that ability to finance should be immediately availed of by entering upon other important improvements that are eminently desirable in the public interest and the doing of which promptly would be very important in aiding the general industrial situation. So whatever improvement we can

get in the financial outlook and ability of the railroads to finance themselves I think we should take advantage of in order to enlarge the program. However, that is speculative, and I believe we have made as liberal an estimate as we can as to what the corporations as a whole will be able to do. I might say further on this general proposition that if the plan were applied of not advancing any further money for additions and betterments to the railroad corporations and of applying against our present absolute commitments the surplus income, estimated to be $150,000,000, my judgment is it would involve the absolute stoppage of many important improvements which will be seriously needed in the public interest, because it would not be practicable for the corporations to finance them in addition to the other financing which our obligation assumes. I believe there would be a two-fold disadvantage in this. First, a serious impairment in the safety and effectiveness of railroad operations, for which the Government is responsible, and, second, a serious cutting down in industrial activity, increasing the unemployment of labor and intensifying the present lack of demand for manufactured products.

WATERWAY IMPROVEMENTS.

The CHAIRMAN. Going back for the present to your waterway improvements and your contemplated waterway improvements, I think the committee would like to get more definite information about the plan that required an expenditure of something over $4,000,000 in 1918 and which involves some $12,000,000 of expenditure for the calendar year 1919. You testified in a broad way as to the items that went to make up the $4,361,486 of advances to inland waterways. Can you give me something of the details of those investments?

Mr. HINES. The important projects which were entered upon by the director general were, first, the acquisition of equipment for use on the New York State Barge Canal and on the Hudson River in connection with the New York State Barge Canal; second, the acquisition of equipment for use on the Warrior River and Mississippi Sound for handling principally coal between the Alabama coal fields, Mobile, and New Orleans; and, third, for the acquisition of equipment for use on the Mississippi between St. Louis and New Orleans. Our plans did not involve at all the development of navigation north of St. Louis.

ESTIMATED EXPENDITURES ON INLAND WATERWAYS FOR CONSTRUCTION.

A portion of the $4,361,000, as has been already stated, was to pay operating deficits. The remainder was spent for the following:

New York and New Jersey Canal section:		
On account of construction of 51 steel barges	$666,500	
On account of construction of 21 concrete barges	100,000	
On account of construction of both steel and concrete barges	1,108,000	
For the purchase of 2 wooden barges	35,000	
		$1,909,500
Mississippi-Warrior Rivers district:		
Purchase of Alabama & New Orleans Transportation Co.'s fleet	322,500	
Purchase of Kansas City-Missouri River Navigation Co.'s fleet	458,500	
Purchase of terminal facilities and freight-handling equipment at St. Louis	40,000	

Mississippi-Warrior Rivers district—Continued.		
To apply on construction of 6 power boats and 40 steel barges for use on Mississippi River	$501,900	
Purchase of Alabama Coal Transportation Co.'s equipment	65,845	
Purchase of De Bardeleben Coal Co.'s equipment	64,896	
For adaptation and repair of boats purchased for use on the Warrior River	245,000	
Payments for plans, specifications, etc., for steel equipment being constructed for Mississippi River	15,000	
Total		$1,713,641
Grand total		3,623,141

The CHAIRMAN. You speak of supplying equipment in connection with the New York State Barge Canal. Was the Government undertaking to operate that equipment?

Mr. HINES. The Government was undertaking to operate it, yes; it was Government operation of the equipment, but the Government assumed no control whatever over the canal itself or over the maintenance of the canal, the operation of the locks or anything else connected with the operation of the canal; but it did acquire the equipment and proposed to operate that as a governmental operation in conjunction with the railroads.

The CHAIRMAN. Has it actually acquired that equipment?

Mr. HINES. In part it has acquired it, and a part of this $12,000,000 represents what it will cost to acquire additional equipment, which it is expected will be ready for use this spring, when the canal opens. I will give you the detail of that and show you exactly how much that is.

(The statement is as follows:)

Obligations of the Railroad Administration in connection with financing of inland waterways in 1919—Requirements for 1919.

New York Canal section:		
Construction authorized—		
51 steel barges, 650 tons capacity each	$3,060,000	
21 new concrete barges, 500 tons capacity each	420,000	
20 steel self-propelled barges	1,700,000	
Purchase authorized and made, 5 tugs and 3 wooden barges	109,150	
Total	5,289,150	
Less amounts expended to Dec. 31, 1918, as per answer to question 2	1,909,500	
Balance to be expended in 1919		$3,379,650
Mississippi-Warrior Rivers district:		
Construction authorized—		
Mississippi River section—		
6 steel twin-screw towboats	2,190,000	
40 steel barges	4,120,000	
Warrior River section—		
20 wooden barges	120,000	
4 steel self-propelled barges	1,000,000	
3 steel towboats	480,000	
Purchase authorized and made—		
Mississippi River section—		
2 towboats; 5 steel barges; 4 steel flat barges	458,500	
Erection of cargo boxes on 24 steel chartered barges	48,000	

Mississippi-Warrior Rivers district—Continued.
Purchase authorized and made—Continued.
Warrior River section—

1 steel (harbor) collier		
6 steel self-propelled barges		
2 Gantry steel coal towers	$698, 241	
3 towboats (wood)		
23 barges (wood)		
2 colliers		
Total	9, 114, 741	
Less amounts expended to Dec. 31, 1918, as per answer to question 2	1, 713, 641	
Balance to be expended in 1919		$7, 401, 100
Great Lakes Transit Corporation charter payments		680, 000
Estimate of additional expenditures in connection with the development of the waterways which can not be directly allocated at this time		1, 380, 000
Grand total		12, 840, 750

Substantially all of the foregoing has already been contracted for.

The CHAIRMAN. The equipment which has been ordered?

Mr. HINES. The equipment which has been ordered, and some equipment for which bids have been asked; that is a relatively small amount, but after very thorough consideration and reconsideration we felt that that equipment ought to be acquired in order to make a reasonable success of the Government's operation, which has already been entered on.

OPERATION OF NEW YORK STATE CANAL.

The CHAIRMAN. What was the moving cause, and how far does it remain a justifiable cause, for operating boats by the Government on this New York canal?

Mr. HINES. The idea in regard to that was that the Government ought to aid in making a fair tryout of what would be available in the way of a joint operation of that canal with the railroads. Under private management of the railroads the railroads naturally preferred to handle the traffic all the way themselves and not to make any arrangements which would encourage the movement of it by water for a part of the way, and the result was that there was little, if any, prospect that anybody would feel justified in putting a modern form of equipment on the waterway, because there would be no hope of getting any joint arrangements with the railroads which would admit of successful operation.

Therefore the policy was entered on to acquire sufficient modern equipment to admit of a reasonably satisfactory operation of the canal and then to operate that equipment in conjunction with the railroads, all being under Government control, so as to make a fair demonstration of what could be accomplished in that way and the extent of the economic advantage from a joint operation of that sort. That policy was evidently in the mind of Congress by reason of the express authorization which was given to use the public funds for purposes of that character, and that was one of the three leading instances where the director general decided it would be appropriate to make the expenditures as authorized by the act of Congress to develop a joint operation under conditions which would make for success.

The CHAIRMAN. That might have been a cause at a time when we were straining every nerve to develop facilities sufficient to handle the traffic that should move, but to-day, with the uncertainty of the volume of traffic and with the tremendous war need of the expeditious handling of it removed, what reason, other than the desire to demonstrate a plan for the use of waterways, is there, if any, for going forward with the operation of a canal system of trasnportation on the New York State Barge Canal?

Mr. HINES. My best judgment is that the policy of Congress, as expressed in that act in that particular, was broader than the mere war purpose; that it was the desire to take advantage of this opportunity for a concentrated control to make a fair experiment with some of these leading water-transportation projects. The public has spent an enormous amount of money in providing the waterways in the case of the New York State Barge Canal the State of New York has spent the money, but in the case of these others I have spoken of the Government of the United States has spent the money, but under private management of the railroads there never was any opportunity to utilize what the Government had spent. Now, as I interpret the policy of Congress, as expressed in the Federal control act in that respect, it was that advantage should be taken of this opportunity of Government control of the railroads to make a fair test of sympathetic joint operation to see what could be accomplished, and I do not think it was confined merely to the war, because in the nature of things, that could not be developed to a point where it would be a large relief of railroad conditions. My own judgment is that it would be contrary to the public interest now to abandon those experiments or to continue them without the moderate additions of equipment which we have proposed, because I think they are necessary to make the experiments reasonably fair.

The CHAIRMAN. Have you any hope of carrying out the experiment unless you get an extension of Government control beyond what seems to be indicated by the present state of public opinion?

Mr. HINES. My judgment is that even in that period these instances that I have mentioned can be put on a basis which will demonstrate what can be done, and the Government once having started those operations and having demonstrated that they are economically justifiable, I think they will continue, and it will be an important part in the way of the utilization of waterways. In the past the Government has spent a great deal of money to provide a navigable channel, but it has not done anything to connect it with the traffic arrangements, which must be made and the final adjustments for the transfer of traffic, which must be made to make it a success, and I think this is an opportunity that ought not to be lost to work that out and show that it can be made an economic justification.

The CHAIRMAN. If the thing works, perhaps all of that is true, but the pertinent inquiry at this point is to what extent the Government may involve itself in financial loss incident to operation over and beyond its capital investment in undertaking to demonstrate this view.

Mr. HINES. Of course, that is a question of trying to interpret the policy of Congress, and I have considered what Congress has expended in preparing these waterways for use and the provisions it put in this act for the development of actual transportation on the

waterways, and I think the proper interpretation is that Congress wishes this expenditure made and that what we are proposing is in a moderate way to get modern equipment and then use it in conjunction with the railroads in the traffic that is best adapted for it.

The CHAIRMAN. Has any effort been made for the disposition of this equipment by sale to some water carrier that might desire to engage in that field?

Mr. HINES. No; there has been no basis so far for that, because I do not think any water carrier will be willing to acquire the equipment in the absence of some assurance as to the establishment of reasonable arrangements with the railroads for an interchange of traffic, and there is no basis for any such assurance at all now except during the time of Government control.

Mr. VARE. Have there been any efforts made on your part looking to the cancellation of any of these contracts for equipment for waterways?

Mr. HINES. Not for waterways, because we have felt that was an experiment we ought to go ahead with.

Mr. VARE. Is it not a fact that at the time Congress granted this authority it was looking toward a long war, and that there being some congestion the use of waterways was suggested with the hope of relieving the transportation of freight in order to expedite the carrying of freight during the war rather than as an economic policy of the Government?

Mr. HINES. I have put another construction on that in this case—that Congress, having authorized the expenditure of so much money for providing channels for waterway transportation, wanted to take advantage of this Government control of railroads to provide some actual transportation on the waterways in order to test out the feasibility of water transportation, because the railroads had always discouraged it.

Mr. VARE. Then you would not think that authority was given as a war measure?

Mr. HINES. Not exactly; no; and I believe we would be in disregard of the policy of Congress, as I interpret it, if we now, having entered upon these three leading projects, should cut them off short and leave them without adequate equipment to make them a success, because then they would be predestined to failure.

Mr. VARE. Do you not think it would be good business policy to ascertain to what extent private enterprise would be willing to assume these governmental obligations in the event of Congress deciding to go back to the private control of railroads?

Mr. HINES. I do not believe there would be any possibility whatever of making a business arrangement at this time, because the future relations between railroads and waterways are now so uncertain, and yet after a year or so of development of this situation the probability is that there will be a much more definite basis for business negotiations than there is now. I can not imagine that right now any private enterprise would want to take this equipment and take chances as to what the future arrangements would be between the railroads and the waterways.

The CHAIRMAN. Your whole idea seems to be predicated upon a belief that this waterway, operated simply on behalf of itself and without arrangements being made to offer it traffic through the railroads, could not and would not be commercially justifiable.

Mr. HINES. I believe that is true. I think it is very much in that respect like the railroads; that is, no railroad which is merely a trunk-line railroad without feeders can succeed, because the principal thing is to get traffic for it, and a waterway is in the attitude of being a trunk line without feeders unless the railroads can be brought into relationship with it where they will reciprocally feed each other. That has never been practicable under the private control of railroads, because they wanted to hold the traffic for themselves. I believe that with the Government in control of the railroads, even temporarily, and with a moderate development of modern equipment on a few of the waterways, this reciprocal feeding of traffic back and forth can be developed, and it will be found that there is an important economic justification for some of the leading waterways and that in the long run it will be decidedly in the public interest, because the nature of the results will be highly beneficial.

The CHAIRMAN. When do you expect to have this waterway thrown open to use?

Mr. HINES. The State barge canal was operated last year with some of our equipment. It was mostly antiquated equipment that we chartered simply for the season. We are having this modern equipment constructed, and it will be available for use when navigation opens on the canal in the spring.

OPERATIONS ON THE MISSISSIPPI AND WARRIOR RIVERS.

On the Warrior River we have begun operations with the equipment we have acquired, and that will be enlarged and made more satisfactory with the equipment which has been ordered, and a similar situation is true on the Mississippi. On the Mississippi and the Warrior Rivers operations have already begun in a tentative way, and we have established as to the Mississippi a scheme of joint rates with the railroads so as to set in motion this process of reciprocal feeding of traffic I have spoken of, and that will be enlarged as this new equipment which has been ordered is available.

The CHAIRMAN. Have you gone far enough on either the Warrior or the Mississippi to have any conclusion as to costs and earnings?

Mr. HINES. The thing so far is in a formative stage, because so far the equipment we have acquired has been insufficient, and that is why we have ordered this additional equipment. So we have not any figures as to costs which we regard as a reasonable forecast of what will be done in the future. I can give you a memorandum showing the exact results so far, but the situation has been so formative that I do not think that would really be enlightening as to the future.

(The statement is as follows:)

Results of operation of canals and inland waterways for period ended Dec. 31, 1918.

	Total operating revenues.	Total operating expenses.	Net operating revenue.	Tax accruals.	Miscellaneous rents.	Net operating income.
Cape Cod Canal	$174,273.21	$499,063.06	*$324,789.85*			[1] *$324,789.85*
Mississippi—Warrior	86,083.99	216,260.93	*130,176.94*	$367.11	$4,244.74	*134,788.79*
New York canals	636,846.56	1,005,775.61	*368,929.05*		14,233.07	[1] *383,162.12*
New Jersey canals	68,486.56	52,076.73	16,409.83		2,334.07	[1] 11,075.76
Total	965,690.32	1,773,176.33	*807,486.01*	367.11	20,811.88	*828,665.00*

[1] 1 month estimated.

Estimated revenues and expenses of Great Lakes Transit Corporation for 1918, excluding charter hire.

[Prepared by Division of Operation, Apr. 6, 1918.]

Revenues	$1,525,000
Expenses	468,750
Net revenue	1,056,250

The only actual figures that have been reported so far are for the period ended June 30, 1918, representing approximately two months' operation, as follows:

Revenues	$253,158
Expenses	194,603
Net revenue	58,525

In view of the fact that figures for the balance of the year are not yet available, there does not yet appear to be any necessity for changing the estimate given above.

It should be noted that the revenues and expenses, excluding charter hire, given above, form part of the operations of the railroads and are, therefore, included in our estimates for the year. The charter hire is paid directly by the Railroad Administration and consequently that item constitutes a separate transaction in the estimates for the year and is not included in the railroad operations.

The CHAIRMAN. Are you undertaking to develop upstream traffic on those rivers?

Mr. HINES. On the Mississippi, yes; to a large extent. The upstream trafic is particularly desirable traffic because the situation there is that there is in general a large movement of empty railroad cars southbound in order to take the northbound traffic that originates south and near the Gulf. Now to the extent that we can develop a northbound traffic by water, we will relieve the necessity for a southbound haul of empty cars, and we are giving special attention to trying to encourage that northbound traffic. On the Warrior River there is not a great deal of prospect for northbound traffic, but there is such a good prospect of such a large and steady volume of southbound traffic that that gives very good peospects of being a successful operation.

The CHAIRMAN. Am I to understand that speaking in terms of a year's operation the movement of freight south over the roads that run down the Mississippi Valley is not sufficient to supply the cars requisite for the movement of freight up?

Mr. HINES. Broadly speaking, that is true. You see, the Southern States produce raw materials and commodities of large bulk, and they move very largely in box cars, and as to certain types of commodities in tank cars. Now, the southbound movement—aside from coal, which moves in open-top cars and not available to any great extent for the traffic originating in the South which moves northbound—the traffic is of miscellaneous manufactured products and is less in volume. So that broadly speaking there is a substantial movement of empty cars southbound to take care of loads northbound.

INLAND WATERWAY PROGRAM FOR 1919.

The CHAIRMAN. You are to supply a financial statement showing in detail the expenditures made and contemplated in connection with waterways, but in the absence of that now, can you tell me in a

broad way the proportion of this money spent and to be spent that is to go to these three different streams?

Mr. HINES. Broadly speaking, of the $12,000,000 for inland waterways for the calendar year 1919, $4,800,000 will be for the acquisition of equipment on order for the New York State Barge Canal, and $6,000,000 for equipment on order for the Mississippi and the Warrior River waterways. Eight hundred and forty thousand dollars, it is estimated, will be for expenditures to be made for the Cape Cod Canal, but it is anticipated that canal will be transferred to the War Department, which will take up that particular expense.

The CHAIRMAN. On what theory?

Mr. HINES. The War Department is taking steps to acquire the canal under authority that has been given, and the purchase price it pays will reimburse us for that expense.

The CHAIRMAN. Are you able to divide your $4,361,486 of actual expenditures?

Mr. HINES. They are getting the figures on that now.

Mr. CANNON. Speaking of the Warrior River, have you shown anywhere the expenditures for barges, etc., on the Warrior River?

Mr. HINES. We are getting now the facts as to the expenditures during the calendar year 1918.

Mr. CANNON. Are you getting the amount of freight that floats down the river to—Mobile, is it not?

Mr. HINES. Mobile and New Orleans.

Mr. CANNON. Do you know the tonnage you carried in the last year on the Warrior River?

Mr. HINES. I can get that for you. This plan was not developed until along in the fall and then only partially, so that what we carried in 1918 was relatively small, but I will be glad to give you the exact figures.

Statement of classified tonnage moved on the Mississippi River Sept. 28 to Dec. 31, 1918.

Commodity.	Tonnage. South bound.	Tonnage. North bound.	Revenue, south bound.	Revenue, north bound.
Grain	19,500	8	$48,611	$60
Rice	470	....	944	....
Iron	94	....	360	....
Machinery and castings	18	3	160	70
Vehicles and tools	26	....	230	....
Wine, liquor, and beer	186	....	860	....
Household furniture	49	....	490	....
Merchandise	203	4	1,995	55
Other manufactures	25	280	230	4,200
Miscellaneous	517	308	2,613	1,675
Molasses	9	7	70	50
Coffee	....	540	....	2,450
Nitrate	....	1,125	....	3,540
Sugar	....	6	....	45
Total	21,097	2,281	56,563	12,245
Towing	....	....	1,700	1,200
WARRIOR RIVER SECTION.				
Coal	10,350	....	7,400	....

Mr. CANNON. You made a pretty large investment on the boats for the Warrior River, did you not?

Mr. HINES. Yes; a very substantial investment.

Mr. CANNON. Do you recall that amount?

Mr. HINES. I am getting that information now.

Mr. CANNON. Coal would be the principal thing on the Warrior River, would it not?

Mr. HINES. Yes.

Mr. CANNON. Are you bothered about terminals on the Warrior River; I suppose not, unless it would be at Mobile.

Mr. HINES. The coal that comes down the Warrior River is largely to be used for bunkering ships at Mobile and New Orleans, and the fact that it arrives by water fits in very nicely with the purpose for which it is used.

Mr. CANNON. You do not anticipate any return freight on the Warrior River?

Mr. HINES. Very little. It is almost wholly southbound traffic there.

Mr. CANNON. And for coal purely?

Mr. HINES. Yes.

The CHAIRMAN. Is there not considerable iron ore, and is it not contemplated that there will be some traffic out of the Birmingham district in the way of other freight besides bulk freight like coal and iron ore?

Mr. HINES. Well, that has not been counted on to any appreciable extent in making our plans. That would be a thing to develop, but generally speaking we are planning simply on the coal traffic. Of course, whatever else can be developed will be that much to the good.

The CHAIRMAN. What sort of barges have you undertaken to build in connection with the handling of coal—wooden barges or steel?

Mr. HINES. For the Mississippi waterway the barges that we are constructing are steel. The equipment on the Warrior that is to be constructed consists of steel towboats and wooden barges. If you are interested in it I will be gald to have our director of inland waterways give you all these details and give you a great more light on the details.

The CHAIRMAN. Perhaps we may not have time to examine him, but it may be worth while to put in the record in connection with your financial statement of capital outlay in connection with waterways a general statement as to the method that has been pursued in handling traffic, the returns that have been secured, if any, and the contemplated program in connection with the present calendar year in the use of $12,000,000 of additional equipment which you are providing.

Mr. HINES. I will prepare a concise statement that will cover all those points.

(NOTE.—Statements appear throughout the text, supra.)

Mr. CANNON. You are very familiar with the coal fields of Illinois. Kentucky, Indiana, especially in connection with transportation to St. Louis and more particularly to Chicago, Erie, etc.

Mr. HINES. My knowledge is of a rather general character, but I have from time to time known something about it.

Mr. CANNON. Take it in my agricultural county of Vermillion, there is a coal development there susceptible of a shipment of approximately 6,000,000 tons, and the railroads running through there are the Big Four, the C. & E. I. and the Illinois Central, and so on. I am reasonably sure that before the largest development took place, there was an output of 4,000,000 tons from the Vermillion field alone and it extends south to Indiana, a continuous coal field until you strike Clinton, and then on down indefinitely; southern Indiana is a great coal field.

It would seem to me that in connection with St. Louis and Chicago, with all that that means, the carriage of coal and kindred products for one year by water transportation is not practicable, and it would probably take a quarter of a century or maybe a half a century fully utilizing the Black Warrior and the Mississippi River, and I was going to say the Ohio River, but I will not, because we are spending large amounts of money on the Ohio, so I will not include it. You have in a general way been taking all this into consideration in connection with the hooking up of water transportation with the railroads.

Mr. HINES. As to supplying Chicago and St. Louis with coal from the Indiana and Illinois coal fields, of course, there appears to be no reasonably satisfactory way to handle that except by rail. There has never been brought to my attention any project to undertake to handle coal to those great centers by water, because the coal is so near them and there are so many rail lines to handle it.

The Warrior situation was unique in that here was a river extending from a very important coal field directly to the Gulf, where a great deal of coal was needed for bunker purposes; and for the making of an experiment as to the possibilities of a navigable stream for handling coal, that seemed by all odds the most conspicuous case in the country, and none of our plans contemplate a coal traffic to either St. Louis or Chicago because they are adequately cared for by reason of the fact that they are so near the coal and there are so many railroads reaching them. I do not know whether I have fully answered what you have in mind.

Mr. CANNON. It would be impossible for you, however, to put a trustworthy estimate on what the expenditure would be upon railways and upon waterways, with all that that means, in the event that Government ownership was tried out until it was demonstrated to be a success or not.

Mr. HINES. Do you mean Government control of the railroads and waterways or just of the waterways?

Mr. CANNON. Well, if you can work out your project it means Government control of both, does it not?

Mr. HINES. Not necessarily; no. My thought is that taking these three water projects, these three large ones that we have entered on, that we ought to make a very satisfactory demonstration within the present period of Government control as to what can be accomplished. Then if the railroads go back into the old form of private control it will be a question as to what legislation Congress can adopt to insure the continued interchange of traffic, which would protect the waterways.

ESTIMATED EXPENDITURES FOR OPERATION OF RAILROADS AND WATERWAYS FOR TWENTY-ONE MONTHS.

Mr. CANNON. Can you give some reliable estimate for the 21 months after the proclamation of peace, as to the necessary expenditure on the part of the Government for operating the railroads for that 21 months, as well as the waterways? Can you give us any estimate as to what it would mean in the way of appropriations to give it a fair trial?

Mr. HINES. As to these waterways I do not anticipate that any substantial expenditures would be called for in that period beyond those proposed here, because what we have proposed in the way of expenditure contemplates a practical plan for operating these particular lines of transportation on waterways; so I do not anticipate that any substantial additional appropriations would be needed for additional capital expenditure on them. Of course, as to the railroad situation, it is purely a question as we look at it beyond the year 1919, as to the state of business. I should be greatly surprised if we would have to have any substantial additional appropriations to take care of capital expenditures on the railroads after the calendar year 1919, and the question whether we will have operating losses or whether we will earn enough from the railroads to pay the rentals will be largely dependent on the amount of business that is done. We are going through a process of readjustment now, and during the next few months business may fall off considerably, and if it falls off very considerably that may bring about a loss this year. On the other hand, that may be made up by a good business in the fall. So aside from an operating deficit, which might come about as a result of an unsatisfactory state of business, I do not look for any very substantial additional appropriation for the Federal control of railroads during the 21-month period.

Mr. CANNON. Is it contemplated in the coming 21 months for which this appropriation is made, and the Government keeps the railroads for 21 months after peace is proclaimed, that you are going to let the canals and inland waterways take care of themselves, or are you going to divert traffic from the railroads to the waterways and from the waterways to the railroads and undertake to adjust the equities between the waterways and the railroads in that time?

Mr. HINES. In this 21-month period it will be our purpose to try to handle the traffic so as to send by the waterways the traffic which it seems can be economically handled in that way. That will result in giving them more traffic than they had under private management, because under private management the railroads wanted to keep it all for themselves. So there will be a readjustment to the extent of trying to send through the waterways traffic which they can economically handle, and I am speaking now of the specific projects we have entered upon.

The CHAIRMAN. When you use the word "waterways" you mean these three waterways?

Mr. HINES. Yes. It would be our policy to pursue a reasonable plan of interchange of traffic with any other existing lines, but I am now speaking of these three projects that we have selected for the purpose of making a fair experiment.

The CHAIRMAN. In order that your position may be perfectly clear, you do not mean, assuming continued management of the railroads for 21 months after the declaration of peace—which presumably would mean something more than two years—that during that time there would be any effort on the part of the Railroad Administration to further develop the waterway movement of freight by financing capital investment in such waterway traffic?

Mr. HINES. We have not any other additional projects in mind at this time and, of course, this appropriations does not call for any. But I would not want to say absolutely that nothing of that sort would be done, because some case might be brought up which would be thought justifiable. But my own judgment is that the wise thing to do is to make a very thorough and fair experiment with respect to these projects we have already undertaken.

RAILROAD CAPACITY OF COUNTRY-TERMINAL DEVELOPMENT.

The CHAIRMAN. Let me ask you this basic question, which bears on the particular subject you have been immediately testifying about as well as on the particular subject of railroads. In your judgment is the country overbuilt in railroads or underbuilt?

Mr. HINES. That is a pretty big question. In many places there are more railroads than are needed to handle the business, while in other parts of the country additional railroads are needed to develop the country. Taking the trunk lines of railroads I think they are adequate to handle the business that would move over them and that what is needed as to the railroad situation is a greater development of terminals. I think that is where the difficulty lies principally, in the terminal situation, and that they need a great deal of additional development. I think that additional development in connection with terminals is needed, and that if such terminals were developed, and a better control of traffic through a unified Government control of all railroads, that is to say, more effective Government control of private management of railroads, generally speaking, they would be ample for handling substantially larger traffic than now exists—that is, taking the situation broadly. Of course, the country is going to continue to grow and in places it will be necessary to provide additional facilities. My own thought is that one of the values of making a reasonable demonstration of this waterway situation is that it will help to supplement the railroads and supplement the development of traffic and it will have a particular value in that, as a rule, it will help to relieve the terminal situation.

The CHAIRMAN. How far is your terminal situation due to the fact that terminals have been built and in the past used for the purely selfish purpose of the road building and owning them to control traffic for itself?

Mr. HINES. I think the way in which terminals have been planned has been brought about largely through the selfishness of an individual company, and therefore that the terminal as planned is less available for general use than if it had been planned in the public interest rather than in the interest of a particular railroad. In addition to that, in the past it was very usual for a railroad company to refuse to handle competitive business in its terminals for any

other railroad company. I think that had a decidedly detrimental effect on the community and hampered the extent to which the terminal could be used. By degrees that policy has been discontinued under the force of public sentiment and the orders of commissions and litigation of various sorts. But it still remains that the terminal, as it stands, was planned for their exclusive use, so that even when that policy has been abandoned it is frequently true that the terminal needs some comprehensive development in the common public interest in order to admit of the greatest use.

The CHAIRMAN. Is not this somewhat the situation touching the railroads, speaking again very broadly: That with the country running at high speed in the way of manufacture and the raising of crops and the movement of them, that the railroads present an inadequacy to handle the freight expeditiously, due in many particulars to congestion at certain points because of terminals and otherwise, and yet in times of ordinary or subnormal activities they represent an investment so great as to make it difficult to obtain a return sufficient to take care of their charges and make a dividend upon the investment?

Mr. HINES. That is true to a considerable extent, and it is inevitable, because business, as reflected in the operation of a railroad, does not remain on any given level; it goes up and down; and the difference between the most depressed point and the highest peak is very great, and the result is that in the time of very small business, either on account of a poor year or at certain seasons of the year, the railroad plant, as a whole, is much more than is needed to take care of the business, and then at another season of the year the plant is insufficient to take care of the business. That, to a considerable extent, is an evil that is inevitable, because the business will not stay on any given level; and if you have a plant that will measurably take care of it on a high level, you have a plant that is much more than necessary to take care of it on a low level.

Of course, that is characteristic of pretty nearly every large business, because it does not always run at even pitch. I think that as the country develops there will be a splendid opportunity to minimize the further investment in railroads by adopting a much greater unified control of the physical operations and by so handling the terminals as to get the greatest use out of them. I think that if railroad development is allowed to go on practically on the initiative of a great many different railroad corporations, as in the past, that there will be an enormous additional waste of capital tied up in special developments which are of interest to a particular railroad but which would not be necessary in the general interest, and the more we can unify control—entirely without Government operation, however—the more we will save that waste of capital. I admit there is a great deal of it now, and it is due, as I think your question implies, to the fact that the business fluctuates greatly, and I think that can be greatly equalized under more comprehensive unified control, even under private management, as I think it ought to be private management as a permanent thing.

NEW YORK STATE BARGE CANAL—MISSISSIPPI-WARRIOR RIVERS.

(See p. 121.)

Mr. VARE. Mr. Hines, going back to the waterway systems, assuming that the New York State Barge Canal had been well equipped with barges and other necessary equipment last year, when the climatic conditions were down below zero, could you have operated the canal?

Mr. HINES. No; the New York State Barge Canal is out of business several months every winter on account of being frozen up. That is one of the disabilities that the canal will always labor under.

Mr. VARE. Does that same condition apply to the northern Mississippi?

Mr. HINES. It does not apply to the southern Mississippi and the Warrior River, because I think they are open practically the year around, although I suppose that at times on the lower Mississippi they have a good deal of ice in it which comes from the Upper Mississippi.

Mr. VARE. I had reference to the upper Mississippi.

Mr. HINES. I suppose that is out of business a great deal of the time. We have not looked into that at all, because we have not undertaken any development on the upper Mississippi.

Mr. VARE. Would a railroad system developed after taking into consideration the maximum possibilities of these waterways be sufficient, or rather, would there not be the same overcapitalization if you had to meet conditions at all times? In other words, would it be safe to simply depend on the water transportation and have your railroad condition cut down to that extent?

Mr. HINES. I think the two things would have to be worked together. I believe that as you improved the waterways of the country there would be certain sorts of traffic that could be handled more economically than by the railroads, and that ought to be especially true if they could handle the traffic which otherwise would call for the hauling of empty cars by the railroads in order to handle it. So I think the two things ought to be weighed together, and the final result would be that the advantage to the Nation will be greater if they utilize the waterways for what they are best adapted, but, of course, that should not interfere with the further needed development of the railroads. In the long run they will need a great deal of additional development, which will not be affected by the development of the waterways.

Mr. VARE. I have in mind, for instance, large mills that might utilize the New York State Barge Canal for nine months in the year, and then when the climatic conditions changed they would necessarily have to shift to the railroads.

Mr. HINES. Yes; and that is a disability that the canal service labors under inevitably.

Mr. VARE. And that same thing would apply to the northern Mississippi?

Mr. HINES. I should think so. I am not advised as to how long that is put out of business by ice, but I suppose it is to a very substantial extent.

INVESTMENTS IN RAILROADS.

The CHAIRMAN. I do not recall right now the total investment in railroads. Do you recall it in rough figures?

Mr. PARKER. It is about $20,000,000,000 at the present time.

Mr. HINES. That is the nominal capitalization.

The CHAIRMAN. What has been about the annual capital outlay of these railroads?

Mr. HINES. Mr. Parker, have you the figures showing what has been about the annual amount of capital expenditures by the railroads?

Mr. PARKER. Offhand it runs from $600,000,000 to $1,000,000,000 a year, but I have not the figures year by year.

Statement follows as to property investment of railroads and the average annual expenditure increase therein for a period of 10 years.

Property investment of all railroads except switching and terminal companies.

[Taken from Table IV, Appendix C, of the Thirty-second Annual Report of the Interstate Commerce Commission.]

	Property investment.	Increase during year preceding.
June 30—		
1908	$13,213,766,540	
1909	13,609,183,515	$395,416,975
1910	14,557,816,099	948,632,584
1911	15,612,378,845	1,054,562,746
1912	16,004,744,966	392,366,121
1913	16,588,603,109	583,858,143
1914	17,153,785,568	565,182,459
1915	17,437,666,690	283,881,122
1916	17,684,736,585	247,069,895
Dec. 31—		
1916	17,837,624,883	[1] 152,888,298
1917 [2]	[2] 18,593,624,883	[2] 756,000,000
Total increase from June 30, 1908, to Dec. 31, 1917		5,379,858,343
Average increase per year (9½ years)		566,300,880

[1] Increase for six months' period. [2] Estimated by statistician of Interstate Commerce Commission.

Property investment account as compiled from carriers' reports to the Interstate Commerce Commission for the last 10 years.

[From oral statement of R. S. Lovett before Joint Committee on Interstate and Foreign Commerce.]

Year ended June 30—	Total.	Increase.	Per cent of mileage.
1906	$12,420,287,938	$468,938,989	92.85
1907	13,030,344,328	610,056,390	91.67
1908	13,532,744,773	502,400,445	91.65
1909	13,930,420,742	397,675,969	93.63
1910	14,560,543,744	630,123,002	94.13
1911	15,793,477,337	1,232,933,593	95.44
1912	16,489,654,661	696,177,324	96.60
1913	17,070,028,581	580,373,920	96.73
1914	17,648,816,951	578,788,370	97.03
1915	17,862,416,550	213,599,599	96.76

Total increase in 10 years $5,911,067,601
Average per year 591,106,760

The CHAIRMAN. Presumably a part of that capital outlay is wiped out in determining the total of the investment in railroads.

Mr. HINES. Yes. This represents the net additions, after taking into consideration what is paid out in connection with the additions.

The CHAIRMAN. That would seem to indicate that there is practically a 5 per cent increase in capital investment yearly on the railroads.

Mr. HINES. I think that figure of $1,000,000,000 is much in excess of the average, but undoubtedly there is an increase of from 3 to 4 per cent every year, on an average, of the total investment in the railroads, but that is not excessive in view of the fact that this is a rapidly growing country.

The CHAIRMAN. What do you figure will be the total of capital investment for the two years 1918 and 1919? For 1918, as I recall it, you show a capital investment of $573,000,000, of which the Government is financing $291,000,000.

Mr. HINES. Yes, sir.

The CHAIRMAN. For 1919 what do you figure it will be?

Mr. HINES. For 1919 our figure is practically $876,000,000.

The CHAIRMAN. So that would mean about $1,400,000,000 for the two years or $700,000,000 in the way of capital investment per annum.

Mr. HINES. Yes. In comparing that, though, with the experience of the past it must be remembered that the purchasing power of the dollar is so much less now that that does not represent the addition of the same amount of physical property that the same amount of money would have done prior to these war years, so that the $1,400,000,000, representing approximately $700,000,000 a year, when you measured it in the physical additions to the property, would probably be close to the minimum which had been done in recent years prior to the war.

ALLOCATION OF MONEY FOR BETTERMENTS.

The CHAIRMAN. Have you undertaken to allocate the $800,000,000 of betterments that you figure to be made in this calendar year 1919?

Mr. HINES. That process is now going on through a very careful review of what was authorized last year to see what could be cut out, but it has not been completed. We could make a tentative allocation of that. Our division of capital expenditures is studying the matter now and passing on authorities, but they are being very carefully scrutinized; the director of the division of capital expenditures told me this morning that final action was coming along slowly, because of the very careful scrutiny that was given and that we could make only a tentative allocation at this time as between the companies. However, there are certain features of it that we could be exact about. For example, apart from this $286,000,000, which represents equipment which the Railroad Administration ordered last year and which is to be delivered this year, it is estimated that the other capital expenditures during 1919, including the equipment, will be $491,000,000. Now, of that amount $109,000,000 represents equipment which the corporations themselves ordered prior to January 1, 1918, but which could not be delivered during 1918 on account of the delay in obtaining deliveries and that will come along and be delivered in 1919.

The CHAIRMAN. And that is exclusive of the $286,000,000 of equipment?

Mr. HINES. Yes. That could be definitely allocated, as I understand it.

The CHAIRMAN. The importance of my inquiry lies in this: That the extent to which you may have good or bad debts will depend upon where this capital investment goes.

Mr. HINES. Yes. We estimate roughly that of this $491,000,000 about $201,000,000 will be for equipment, and that includes the $109,000,000 which the corporations have already ordered. That equipment, generally speaking, will represent a good security, because it can be made the basis of exclusive security for the debt that is created to pay for it; the remaining $92,000,000 for equipment would be, broadly speaking, in the same condition, although there may be a substantial part of that that would represent the rehabilitation of existing equipment. For example, where wooden cars would be given steel underframes in order to strengthen them and prolong their life; in that case the car was already covered by an equipment trust or by a mortgage, and it would not be any better security after this additional expenditure was made on it, but broadly speaking the $201,000,000 for equipment would represent in itself a good and exclusive security to protect the loan.

The other $290,000,000 would represent capital expenditures spread over the different companies, and so far we have not a reliable allocation of that, because the final authorities have not yet been passed upon, but acting on that matter we are governed by the principle that we will not make expenditures now, under peace conditions, on a railroad company which can not give us good security, unless they are of an imperative character and in the public interest, but that represents, on those roads that can not give good security, a relatively small amount.

Mr. GILLETT. I do not quite understand what you mean by giving good security.

Mr. HINES. I mean, Mr. Gillett, that if you take the Pennsylvania, for example, that company can give us good security for what we spend, because the road has good credit and probably can issue mortgage bonds on account of its additional capital expenditure.

Mr. GILLETT. I thought you were not allowing them to do that.

Mr. HINES. Oh, yes.

Mr. GILLETT. Are you at present?

Mr. HINES. Whenever they can issue good mortgage bonds to reimburse the Government we want it done and require it to be done.

The CHAIRMAN. Mr. Hines, if I have understood your recent figures, there is $286,000,000 worth of equipment that has been contracted for and which the Government stands obligated to pay for, in round figures.

Mr. HINES. That is true.

The CHAIRMAN. And you estimate for this calendar year there will be, in addition to that, expended on equipment about $201,000,000, which would indicate a total of $487,000,000 that would be put into equipment, and which, along with the $290,000,000 of what might be called betterments, represent in round figures the total capital investment for the year?

Mr. HINES. Yes; that is correct.

The CHAIRMAN. And of the $201,000,000, something over $100,000,000 represents orders that were given prior to 1918 by the railroads themselves, which could not be delivered until this fiscal year?

Mr. HINES. Yes.

The CHAIRMAN. As to that, they can have no possible objection as to the price, because they themselves are responsible for the orders?

Mr. HINES. Yes; that is true.

The CHAIRMAN. As to the additional which goes to make up the $201,000,000, presumably that will be done with the acquiescence of the railroads?

Mr. HINES. Yes; that is about $92,000,000.

The CHAIRMAN. So, you get down to the question now as to how far the railroads will accept at their cost the $286,000,000 of equipment?

Mr. HINES. Yes.

The CHAIRMAN. And that presumably is taken care of in a number of instances in the contracts which you have actually entered into with the railroad companies?

Mr. HINES. I do not quite follow what you mean by "taken care of."

The CHAIRMAN. I mean taken care of in the sense that they agree to recognize their liability at its face for capital investment made in connection with rolling stock.

Mr. HINES. The contract does not preclude them from raising the question that the capital expenditures which they were ordered to make were unnecessary for their purposes. They still have the right to raise that question and to claim that they have been made to take equipment that they did not need. That is a question which is open under the contract.

Mr. GILLETT. In all cases, you mean?

Mr. HINES. Yes; it may be that in some cases——

Mr. GILLETT (interposing). But it is open in all cases; that is all I meant.

ADJUSTMENT OF ALLOCATION OF BETTERMENTS.

Mr. HINES. I want to qualify that in this way. There may be some of these cases where we have had a dispute with these companies about the allocation of the equipment and we may compromise on the amount, and in making a compromise, it may waive any right it might have otherwise under the contract to be tested out at the end of Federal control. Generally speaking, certainly under the contract when taken by itself, the company has the right to raise that question.

The CHAIRMAN. Now, all this brings me to this further inquiry, as to how much in the way of investment in rolling stock, because of its high war cost, there is any prospect of their being a contest by the railroads with the ultimate result of its being charged off against them and carried by the Government as a war investment?

Mr. HINES. First, under the contract they waive any right to complain of the cost. They can not object to the equipment because it was bought at a high cost. That is waived when they sign the contract. The only ground upon which they can attack the allocation of equipment is that they were required to pay for more equipment than was reasonable to assign to them, the question of cost being

immaterial in passing on that question. Now, it is speculative as to the extent to which they will be able to sustain claims that they have been assigned more equipment than was reasonable. In every case where they have objected, we have examined the facts they have brought forward and we have tried to give adequate allowance to any facts which seemed to show that our assignment had been more than it ought to be. The general result has been that we have felt satisfied that reviewing all the facts they brought forward, the assignment was reasonable. It may be that they can convince the tribunal which passes on the subject that it was unreasonable, but I do not see now any way that we can forecast that beyond saying that our best judgment is that they will be unable to maintain their position in nearly every case, because we have reviewed all the facts they have brought forward and we have not believed that they made out a case.

Mr. GILLETT. You could not go on record as saying anything else, of course.

Mr. HINES. But that has been our policy. Naturally, we have no point in trying to force them to take an assignment of equipment which we believed they could overturn, and we have tried, just like any reasonable business man does—he does not want to lay up a lawsuit against himself or a prospect of a successful one if he can dispose of the matter in advance by facing the facts in an honest way. So our best judgment is that there will be comparatively little success accompanying those efforts, but it is speculative as to how much there will be.

The CHAIRMAN. How much of this rolling stock that has been bought and allocated has been accepted by the railroads? Do you know as to that?

Mr. HINES. At this moment I can give you an approximation; but bear in mind it can be accepted and still under the contract they have the right to raise this claim.

The CHAIRMAN. But I meant accepted by waiver of the claim. I gathered from what you said awhile ago that when protests come in as to the assignment say of 1,000 cars to road A, that you immediately reexamined the assignment and said, for instance, to road A, "Well, we will agree to cut that 1,000 down to 750 cars," and in doing that A then agrees to be bound finally by the allocation of 750 cars.

Mr. HINES. Any waiver in that sense would be negligible because the number of instances where we have revised the allocation have been few.

Mr. GILLETT. May I ask a question right here: Is the attitude of the railroads always one of wanting to take less cars than you allocate, or do they sometimes want more cars?

Mr. HINES. No railroad company has wanted more at these high prices. The prices have been high and they have been reluctant to take them, and perfectly natural, they have wanted to get off with as few as they could; but after investigating these cases, there have been comparatively few instances in which we have felt that the facts called for any readjustment.

The CHAIRMAN. Of course, it means nothing to them now, other than the situation they may find themselves in upon the resumption of operation by themselves of their properties, to accept equipment in view of the fact that the amount of equipment that is used upon

their roads have no bearing upon the compensation which they now receive.

Mr. HINES. No; and, of course, they get an additional return to cover the additional interest charge that they incur on account of furnishing this equipment, so it is of no immediate concern to them.

Mr. GILLETT. It is to their interest to get just as little as they can.

Mr. HINES. Yes; for ultimate purposes, and yet I think they have exaggerated that, because if there is any readjustment of control so that the properties of the existing companies will be vested in new companies with a new capitalization, they would be allowed the full cost of this equipment as it stood in their investment. If it goes back into the old form of private control, the regulating body would treat this as a part of the investment upon which they were entitled to make a return, and in fixing rates it would be used as a basis for that, so I think they have exaggerated the importance of that feature in any aspect.

The CHAIRMAN. On the other hand, if they could force the Government into a position where, supposing 10,000 cars had been purchased at a cost which represented a third more than what they could get cars for at the time when they get back the control of their roads, the Government itself had to own two or thtee thousand of these cars, they would then be in the position of purchasing those cars from the Government and to reduce to the extent of that number by one-third the capital investment which they had made?

Mr. HINES. Yes; but they would have that much reduced investment as a basis for any readjustment or sale to any other company or adjustment of the rates.

The CHAIRMAN. I understand that; but, manifestly, rates can not be predicated just on the question of capital investment.

Mr. HINES. No; it does not work out precisely.

The CHAIRMAN. And if a railroad is in the advantageous position of having a light capital investment compared with some other railroad of equal facilities with a uniformity of rates, it is just to that extent put ahead of its competitor.

Mr. HINES. That is very true. It is an element, and they have an interest in trying to cut this down, but under the contract they can not make any point at all on the price, and it has to be on the reasonableness of the assignment of those units of equipment to that particular company regardless of price.

ADEQUACY OF EQUIPMENT OF RAILROADS.

The CHAIRMAN. Now, let me ask you another question and it necessarily is answered from your standpoint in view of the policy which you have outlined, but the question is this: Have you any doubt as to an overequipment having come to the railroads at the end of this calendar year as a result of the investments that the Government has made in rolling stock for the railroads?

Mr. HINES. No; I have no doubt on that. There has been no overequipment, because for the two years 1918 and 1919 the ordinary wastage of equipment will be in excess of all the equipment the companies were required to take, and the grave doubt will be, if there is an enlargement of business, whether there is enough equipment. I think it would be perfectly clear that the amount of equipment they

will have at the end of this calendar year will be no more than the need, and if there is any departure from what they need it will be le rather than more, although under unified control the equipment ca be made to go further than it does under private control, and the can get along with less equipment, but they will need what they hav So far as there is a heavy slump in business, then, of course, there w be temporarily, as there always is in times of business depression, great many idle cars, but there is every probability that next fa with the normal business it will be just like it generally is in the fa and they will need all of the equipment.

Mr. GILLETT. Then, that means, if I understand you, that ne fall there will be no more equipment, really, than they had two yea ago, because you have supplied simply enough to take care of th wastage.

Mr. HINES. That is practically true as to the number of units, bu probably in capacity there will be a little more because the cars w getting are somewhat larger.

Mr. SISSON. Would it not be absolutely to the advantage of th roads to take the equipment rather than to delay the equipment. Sup pose a road, when it was turned back to its private owner with certain number of cars, and for argument's sake presume that ha the cars available for that road's business were purchased out of th fund we are speaking of, if they did not take the cars at that tim it would take them many months to have them made in the shops would it not?

Mr. HINES. Yes.

Mr. SISSON. I am speaking of the roads taking what equipmen they actually need.

Mr. HINES. Of course, though, in practice the cars we have ordere represent a very small percentage of their total, and also with th interchange of equipment now, a company uses the equipment o other companies to a large extent, and I think the interest of a com pany in that direction, speaking perfectly frankly, would be offset b the interest which the chairman has pointed out, and they would lik to get out of a part of this investment, because they could work along and the difference in the total number of cars would not be ver great since this is a small percentage, and they could also poach o their neighbors more or less.

Mr. SISSON. If every railroad was poaching on its neighbors, th scarcity would be the same.

Mr. HINES. Yes; but each company is thinking about its ow situation.

Mr. SISSON. The only question I had in my mind was that at th time the railroads go back, if they decline to take the cars which yo purchased, would it not impede them in the transaction of their busi ness to the extent that it may be to their advantage to take these car at once, even though the price was high?

Mr. HINES. I do not believe as that would present itself practicall to any particular company that would be a factor. If it felt it coul make a case, it would go ahead and make it and take its chances o getting the use of the equipment in the meantime; but I feel so wel satisfied that on the facts they can not make out a case, the questio of high price being removed from consideration by the contract, tha they can not sustain any considerable claims.

Now, in that connection, this table has been handed me: For the 10 years ended December 31, 1916, the average number of new locomotives per year which had been added to the railroads was 1,274 over the period of 10 years. The number of new locomotives which were actually delivered in the calendar year 1918 was only 795, which was very much less than the average added during the 10-year period preceding. Now, the number ordered during the calendar year 1918 was 2,030. Now, unless we make some large additional orders this year, the total locomotives delivered in 1918 and 1919 will fall short of the average of what has been delivered every year for the last 10 years.

The CHAIRMAN. There is no trouble about locomotives because they can not use each other's locomotives, but your quarrel comes in on your cars.

Mr. HINES. As to freight cars, the average number which had been added per year for the past 10 years was 47,199. The average number which was actually added in 1918 was only 14,000 on account of the delay. The number ordered was 100,000. So the number ordered and which will be delivered in 1918 and 1919 was only slightly over twice the average per year for the last 10 years.

The CHAIRMAN. Are you going to take all that you ordered? I thought there had been some cancellations.

Mr. HINES. No; as to cars, we have gone into that very carefully, and, as I say, we find that they are so far along that we can not cancel, and the entire 100,000 will have to be taken.

The CHAIRMAN. Are you going to permit the railroads to turn in and order $91,000,000 worth of additional rolling stock for this year?

Mr. HINES. That will be of special types. The 100,000 cars we ordered were cars for traffic pruposes. I mean for actually loading traffic into them. A great many cabooses are needed and then some passenger cars of a special type are needed, and it is special types of equipment, and also a certain rehabilitation program and strengthening of cars which can have their life prolonged sufficiently by the strengthening process that makes up that $91,000,000. It is a lot of miscellaneous items.

The CHAIRMAN. Are you undertaking to control what the railroads may be permitted to order in the way of betterments?

Mr. HINES. Our policy is that if any company wants to go ahead and make a betterment, and is willing to pay for it, we are glad to have them do it. We want to encourage industrial development in that way.

The CHAIRMAN. But is that altogether a safe policy in view of the fact that to the extent that they do pay for those betterments they may be unable to pay for some equipment that you have ordered and are going to force them to take.

Mr. HINES. We would take that into consideration. Of course, we would not want that to impair its obligations to us on other things.

The CHAIRMAN. But the question of impairment of obligation is one thing and the question of time is another. You may have a perfectly good security on which you will get your money back three or four or five or six years from now, and yet at the same time the Government, having at present some little need of its own for money, may not be in a position to ignore the element of time.

Mr. HINES. I was not using the term "obligation" in a strict sense. What I meant to say was theat we would not let it go ahead with extra improvements that would interfere with its carrying out the arrangements we wanted it to carry out and to finance what we have ordered. In the first place, it has got to take care of what we order as far as it can. Now, in addition, if there is anything it wants to do and can pay for, that is all right; but we do not want it done in a way to interfere with its paying promptly what it owes us.

The CHAIRMAN. Has any estimate been made by the railroads this year as to what they would like to expend in the way of betterments?

Mr. HINES. I do not understand there has been. That matter is in this situation: All the railroad companies have been called on to express their views as to the program proposed by the Federal managers, and it is, of course, open to the companies in that connection to propose anything additional that they want. The matter was involved in some delay by reason of the fact that Judge Lovett had to resign as director of the division of capital expenditure on account of being pretty badly overworked, and a successor was not appointed until I was made director general, so that this successor has only been in office now about three weeks.

The CHAIRMAN. Who is in charge of that division now?

Mr. HINES. Mr. T. C. Powell, who was our representative with the War Industries Board. From the appointment of the new director of the division of capital expenditures he has been taking up with the corporations these programs that have been proposed by the Federal managers to get their views, and as their views are obtained, of course, they will outline anything additional they want; but I think the probability is that with the still prevailing high prices they will not want to propose anything additional except in extreme cases.

FINANCING OF BETTERMENTS FOR 1919.

The CHAIRMAN. As I recall your first statement touching the financing of betterments for the calendar year 1919, it was predicated upon the belief that $300,000,000 represented about what the railroads might be able to finance in the way of credits that they might establish themselves in the country.

Mr. HINES. That figure was $291,000,000.

The CHAIRMAN. That was exclusive of the $150,000,000 that you were going to take from the rentals?

Mr. HINES. Yes, sir.

The CHAIRMAN. How have you arrived at that determination?

Mr. HINES. We have not been able to arrive at that by any careful study of individual cases, because the cases have not developed to the point where that is necessary. I have arrived at that rather by a different process, although it produces that result, and that is that after taking the $381,000,000 to settle up for 1918 we need these amounts practically in the next two or three months, the $286,000,000 for equipment that we have ordered, the $20,000,000 for the Boston & Maine, and $12,800,000 for the inland waterways. That is $318,000,000 that we see we need in the next few months and that there is no hope of getting refinanced in any satisfactory way in the early part

of the year. That, added to the $381,000,000 which we need for last year, makes practically $700,000,000; it makes $699,000,000.

Now, knowing the difficulties of instantaneous financing, we were satisfied that we ought to have a margin of at least $50,000,000 to carry things until they could be financed. That is the way I got at the $750,000,000. My associates felt we needed $150,000,000 to cover that margin, but I felt that, everything considered, we would take a chance on a margin of $50,000,000. On that basis it figures out that there will be about $291,000,000 which the companies will be required to finance to make that program good, in addition to the $150,000,000. Now, bear in mind the fact that they have got to finance over $200,000,000 of maturities during 1919, which we are not going to help them in. The best judgment I can reach, and it is confirmed by my associates, is that that is as big an amount as we can expect them, on the whole, to finance during 1919. That is $291,000,000, and then on maturities they have got to finance something over $200,000,000. So that this contemplates that the railroads during 1919 will be able to borrow in the open market something like $500,000,000, and I think that is all we can hope they can do.

Repayments to Government.

The Chairman. Have you made any estimate as to when you hope to get back any of your investments? Manifestly you do not hope to get back any of your investment in capital account for 1918 in 1919, nor any of 1919 back in 1919, so that you will not begin getting any payments until the calendar year 1920, if at all.

Mr. Hines. My hope is that in the latter part of this calendar year, if financial conditions are reasonably good, we will begin to get back some of this money, but we will have needed the $750,000,000 in the meantime.

The Chairman. But you have stated, Mr. Hines, that you think the railroads will need to finance their own maturities to the extent of $500,000,000.

Mr. Hines. Yes; that is true.

The Chairman. And that is all you can expect of them this year. That $500,000,000 did not involve the payment of anything to the Governemnt, and if that is all they can be expected to do, how do you figure you are going to begin getting some money back in 1919?

Mr. Hines. That will involve this, which I probably did not make clear: That is all we can expect them to finance in time to pay off things so as to enable us to take care of them in the calendar year 1919, but toward the end of 1919 I look for them to be in a position where they can finance more and yield us results, but they will not be yielded in time to diminish the $750,000,000 we have got to provide for.

The Chairman. In point of fact, is not this the situation: That for 1920 they will be met with the same situation that confronts them in 1919 of the need of making betterments, which presumably will run anywhere from $500,000,000 to $700,000,000 or $800,000,000, and that the only chance they will have to really repay the Government would be, if they have the roads, that their volume of business under the rates which have been established will be sufficient to yield them surpluses to take care of some of their capital account, or if you are

operating the railroads equally as well that the same surplus will be sufficient to enable you to apply some of it on capital account?

Mr. HINES. Well, I think it does not depend principally on that; I think it is more a question of general credit, and I anticipate that that condition will improve the further we get away from the war financing of the Government.

The CHAIRMAN. In other words, it is your idea that if the railroads once get established on a basis which yields them a return sufficient to take care of their fixed charges and their dividends that their credit will then be sufficient in the market to enable them to obtain sums sufficient to repay any advances the Government has made for capital account?

Mr. HINES. By degrees; they can not do it all at once, but I think the situation will steadily improve if financial conditions reasonably improve, and I think it is reasonable to count on that as we get further away from Government war financing.

The CHAIRMAN. After all, does not this proposition present itself, in the absence of Government ownership: That the railroads must, either through their own efficiency of operation and the economies that can thereby be produced or through an added return in the way of rates for traffic moved, be stabilized to the point where the investing public will be willing to underwrite any necessary investment in the way of capital account?

Mr. HINES. I should say that is true, but after all the continued development of the railroads depends on their having a credit which will be sufficient to borrow the necessary money or to raise it through the sale of stocks, because they can not make the necessary improvements simply out of the surplus income.

The CHAIRMAN. In other words, the railroads will never pay off their capital investment.

Mr. HINES. I do not think so; I think it will always be an increasing investment, and has to be an increasing investment either through the purchase of bonds or the purchase of stock. I do not think I have made myself clear. I feel very well satisfied that we can not count on a greater aggregate financing by the corporations than approximately $500,000,000, which can be finished in time to turn the money over to us to enable us to take care of our obligations this year, but I am hopeful, if conditions continue to improve, that financing can be put on the way which will yield results later on, at the very end of this year or in the early part of next, which will enable us to get somewhat ahead and begin cutting down this total indebtedness; but we are in this area of readjustment, the war financing of the Government still going on, and that is why, as I look at it, we do need this additional appropriation to carry us. My own hope is, and I think there is valid belief for it, that as the end of the year approaches and next year comes on we will gradually improve our condition and get a part of this debt retired.

The CHAIRMAN. You do not hope, short of quite a series of years, to liquidate this debt to the Government?

Mr. HINES. I think it can be liquidated in this way: That under favorable market conditions the railroad companies may easily be able to borrow outside on rates more favorable than the rates we charge, and that they will simply transfer the indebtedness from the Government to outside investors.

The CHAIRMAN. We are charging them 6 per cent?

Mr. HINES. Yes.

The CHAIRMAN. And you think that in the next two or three years they will be able to finance at a rate sufficiently low to make it an inducement to them to finance and transfer the indebtedness from the Government to investors?

Mr. HINES. I think there is a strong probability of that as to a large part of this total. That will not be equally so as to all companies, of course.

ECONOMIES AND READJUSTMENT UNDER FEDERAL CONTROL.

The CHAIRMAN. Mr. Hines, the Government has had control of the railroads now for about 13 months. It has been actually operating them independently of any operation on the part of their former owners for some nine months. Are you getting any figures that undertake to show any real economies in operating costs, either as a result of your own experience or as a result of the facilities that the Government has through central control that would not belong to the individual companies?

Mr. HINES. We have had estimates made of economies derived from certain specific changes of policy. In the matter of the discontinuance of soliciting forces, advertising forces, circuitous routing, and by the consolidation of terminals, we have made an estimate of what they have amounted to during the year. Beyond those specific things, it has been impracticable to get any satisfactory light on that subject at all, because the only year we have had to deal with them has been a war year, when our responsibility was to produce results, just as there would be in every other line of business affected by the war. It was not a time that was favorable to economies.

On the contrary, everything involved excessive costs. It is generally recognized in practically everything, and that is also true of the railroads, that in operating under war difficulties to accomplish war purposes, you can not in your general operations find opportunities for economies. Aside from those specific matters I have mentioned, we have not any figures that would throw any light on that problem. From those specific things I spoke of it is estimated that the saving was approximately $90,000,000 per year. I think it is fair to say that while generally the public accepts the view that war is a time of heavy costs and a time when economies have to be put in the background, yet there has been a disposition to lose sight of the fact as to the railroads, or to assume that the railroads were operating practically under normal conditions and that they ought to show the economies that ought to be expected when operated on a normal basis. Of course, we have been affected by those difficulties which make for increased costs, except in those matters where through consolidation and through the discontinuance of specific things we could accomplish savings, which savings, however, simply served in part to offset the abnormal costs that the railroads, like everything else, were subject to in time of war.

The CHAIRMAN. Have you gotten to the point where you believe you are shaking down your organization into any greater efficiency as such than has heretofore existed?

Mr. HINES. We are just getting to the point where processes of readjustment can be undertaken, and this month the regional directors and Federal managers are hard at work on that proposition, and, I might say, with a great deal of cooperation from labor. They are trying to adjust things to the basis that ought to exist after the cessation of hostilities.

RETURN OF RAILROADS TO OWNERS.

The CHAIRMAN. There seems to be a general impression that there is a complete demoralization existing in all branches of this railroad service, or a sort of feeling that the whole matter is transitory and temporary; that it is the Government's business, and, therefore, nobody's particular business, and that, as a result of that condition, the actual management of the railroads is loose and the expense high.

Mr. HINES. I think that the state of relaxation that came about with the signing of the armistice and the natural state of inquiry as to what would happen to the railroads have tended to produce a situation of that sort, which will be cleared up largely as soon as we can know something definite as to what is to happen to the railroads. Of course no business can be handled if the proper state of mind on the part of the organization is lacking, or if the organization does not know whether it is going to end in six months, twelve months, or two years, and if there is a state of uncertainty as to the future. It is a very hampering condition, and since the armistice has been signed there has undoubtedly been that element in the railroad situation.

As soon as the armistice was signed some of the railroad corporations began to insist that the properties ought to be turned over at once with the proper legislation. Then, of course, the average subordinate officer and employee could not figure on how long it would take to get the proper legislation enacted, and they perhaps assumed that in three or four months there would be a transfer back to the old control. Undoubtedly there has been a state of uncertainty which has had a very hampering influence.

The CHAIRMAN. Briefly stated, what was the position that the railroads took touching the legislation that they wanted coincident with the early return of the roads.

Mr. HINES. The position of the railroad executives is that they want the railroads to be turned back to the old railroad corporations just as they were, without change in the capitalization or in the relations of the railroad corporations to each other; with power on the part of the companies to consolidate competing lines under public supervision; to engage in certain forms of pooling under public supervision; the power to make rates to be taken away from the State commissions, the power of the Interstate Commerce Commission to be complete over all rates, both interstate and intrastate; the power of suspending rates to be taken away from the Interstate Commerce Commission; a secretary of transportation to be created, who would take over many of the administrative duties now performed by the Interstate Commerce Commission, and who would be given qualified power to suspend rates or increases in rates pending inquiry into the reasonableness of the increase.

The CHAIRMAN. Did they take the time or trouble to suggest what they proposed doing in the way of paying "Uncle Sam," the money that they owed him coincident with these changes?

Mr. HINES. I do not think that was a matter that they undertook to deal with.

FINANCING BOSTON & MAINE RAILROAD.

The CHAIRMAN. You have agreed, Mr. Hines, to finance the Boston & Maine to the extent of $20,000,000?

Mr. HINES. Yes, sir.

The CHAIRMAN. When was that agreement arrived at?

Mr. HINES. Mr. Eddy, do you recall the day it was that we finally announced that policy?

Mr. EDDY. That was the first part of September; I do not remember the exact date, when Mr. McAdoo made his trip to Boston, which took place just about Labor Day.

Mr. HINES. The first part of September, 1918.

The CHAIRMAN. What does it involve?

Mr. HINES. It involves in effect the taking of obligations which at once or at the end of a brief period, if not paid, will become 10-year 6 per cent bonds secured by a mortgage on the Boston & Maine property. Mr. Eddy, could you state that for the record? As I recall it, first short-term securities which are to be replaced by bonds, maturing in 10 years?

Mr. EDDY. Yes, sir; 10-year 6 per cent bonds, in substance.

The CHAIRMAN. Is this in the nature of a refunding of an existing indebtedness or is it for the purpose of new betterments?

Mr. HINES. The bonds to be taken by the director general are to refund an existing indebtedness, but this transaction has a bearing on the whole betterment situation of the Boston & Maine. The Boston & Maine Railroad system is made up largely of lines which were leased to it and under these leases the Boston & Maine was obligated to pay substantial rentals. Those rentals, of course, were a first charge, because if they were not paid those portions of the system would be lost. The Boston & Maine was in a position where it was not able to offer any satisfactory mortgage security, because it could not put any mortgage on its leased lines and any security which it gave which tried in any way to pledge the leased lines, of course, made the charges subordinate to the rentals, so it was nothing better than a second or postponed lien. We were in the position where, on account of the absolute necessities of the case, we had to provide substantial additions and betterments to the Boston & Maine and its leased lines and with its existing financial structure it was not able to give us any security which was marketable or reasonably satisfactory.

This plan of reorganization contemplated that the holders of stock of the important leased railroad companies would exchange the same for preferred stock in the Boston & Maine and that their leases would be canceled. That opened the way for the Boston & Maine to give a mortgage to take care of its indebtedness which would be a first lien on all the valuable part of its system and which would come ahead of what was to be paid on account of these previously leased lines; because when these companies or their stockholders re-

ceive preferred stock in place of their former leasehold interest, what is then paid to them is postponed to any interest charges which the Boston & Maine incurs. The matter was discussed all through last summer, and it was urged very strongly that the situation was not only a hindrance to the collection of any indebtedness which the Government might have to permit the Boston & Maine to assume, because the Boston & Maine, without a reorganization, could not give any satisfactory security; but it was also a menace to the general financial situation, because at that time the war work was in full swing, with no prospect of termination. It was decided that it was in the interest of the Railroad Administration to aid in carrying out this reorganization, both to help the general financial situation and to put the Boston & Maine in shape where it could give reasonably satisfactory security for what the Government would have to spend upon it.

As a result of those conditions, the Director General gave definite advice last September that if this reorganization was carried through on the general lines I have indicated the Railroad Administration would take $20,000,000 of their new mortgage bonds, thereby enabling them to carry the reorganization through and put them in a position where they could give a mortgage which had a very ample margin for future issues. Mr. Eddy, is it the case that there is a margin in that mortgage for future issues so that they can give security for what we may spend for additions and betterments?

Mr. Eddy. Yes, sir.

Mr. Hines. That was my recollection. The mortgage which is to be given is an open mortgage and forms a basis for issuing the necessary securities to reimburse the Railroad Administration for additions and betterments which it has to make for the Boston & Maine, besides the $20,000,000 now to be advanced.

The Chairman. What did the $20,000,000 go into?

Mr. Hines. The $20,000,000 is to take up the miscellaneous debt of the Boston & Maine, which was hanging over it and which was largely responsible for its bad credit, although not wholly.

The Chairman. By liquidating those debts it gave it a stability that made the owners of the leased lines willing to transfer them and take preferred stock rather than to insist on their rental contracts?

Mr. Hines. That was the controlling factor in inducing them to make the exchange.

The Chairman. To what extent did the Boston & Maine increase its capital stock as the result of this transaction?

Mr. Hines. The amount by which the capital stock of the Boston & Maine was increased was approximately $20,000,000. That much preferred stock of the Boston & Maine is to be issued in exchange for stock of the lessor corporation.

The Chairman. Was any common stock issued?

Mr. Hines. No common stock; just preferred stock.

The Chairman. What lines did they take over?

Mr. Hines. The lines which were brought into the Boston & Maine by that exchange—that amount, instead of being $20,000,000, is practically $39,000,000, because the Fitchburg was omitted in this calculation—the Fitchburg, the Concord & Montreal, the Manchester & Lawrence, the Connecticut River, the Boston & Lowell, the Lowell & Andover, and the Kennebunk & Kennebunkport, and that involved

the issue of about $39,000,000 of Boston & Maine preferred stock in exchange for stocks of these other companies.

The CHAIRMAN. The mortgage given to the Government is limited to the leased roads that were taken in?

Mr. HINES. No; there is to be a mortgage which will cover the present Boston & Maine road and the property of these seven lines now held by lease. Is not that the case, Mr. Eddy?

Mr. EDDY. That mortgage is not completed, but I understand that to be the case.

Mr. HINES. It is a system mortgage.

The CHAIRMAN. A primary mortgage?

Mr. HINES. Does that include the former debt or is it secondary to the original debt of the Boston & Maine?

Mr. EDDY. The $20,000,000 is not represented by an absolute first line, but it is secured by a mortgage which under the peculiar law of Massachusetts is applied to secure equally all of the other outstanding debts, so that the total mortgage debt—you have the figures there, Mr. Hines—is about $103,000,000 of which the Government has a share of $20,000,000.

Mr. HINES. The situation is that all existing indebtedness is equally secured with this $20,000,000, which is merely a floating indebtedness. That is all secured by a mortgage on the Boston & Maine system. I understand that as far as the Boston & Maine proper is concerned there is at present no mortgage, except about $2,000,000 which it is expected will be refunded by the new mortgage bonds. Nearly the entire indebtedness that is outstanding is taken care of in this way. At present it is for the greater part not secured by mortgage, but it is possible under the Massachusetts law to make a mortgage which will cover all existing indebtedness, including the $20,000,000, a total of about $103,000,000, and which will be open to admit of additional mortgage bonds being issued to reimburse the Government for advances which it may make for additions and betterments on this system, or to raise money for other proper corporate purposes.

I might say that another very embarassing feature in attempting to finance this situation at all before was that while the Boston & Maine was the operating corporation, yet as to all leased lines there was a question as to what sort of security we could get. We might get the Boston & Maine to give us its note, but it was a question whether we could get any sort of obligation whatever from the lessor companies which owned these other lines. It was an exceedingly badly mixed up situation, from the standpoint of the Government, which had been making the additions and betterments, and yet, without the reorganization, we could not find any way to get a security which was satisfactory. It is believed that the mortgage bonds which we take are not only perfectly good, but with the margin of income over and above the fixed charges they will be marketable within a reasonable period and be a desirable investment in New England and can be disposed of.

The CHAIRMAN. Did that result in the reduction of the fixed charges of the Boston & Maine at all or an increase of them?

Mr. HINES. The result of the arrangement was to reduce the fixed charges by eliminating the rentals which were formerly fixed charges. These become now merely preferred dividends.

The CHAIRMAN. The interest on the loan to the Government?

Mr. HINES. The debts which this loan is to take up at 6 per cent were already bearing interest, I believe.

There is this other feature about the situation. Additional security is given to the Government for the $20,000,000, in that the holders of the new preferred stock which is issued as a substitute for these leases agreed to forego a part of their preferred dividends for the next five years so as to create by the end of five years a fund of $12,000,000, which becomes a special additional security for the Government in respect of its loan of $20,000,000. That is in addition to the security it gets by virtue of the mortgage.

The CHAIRMAN. This money will be tied up by these terms for 10 years?

Mr. HINES. The $20,000,000 will probably not be paid by the company for 10 years, but my best judgment is that in two or three years we probably will be able to sell those bonds on the market in New England and get the Government's money back in that time, because it is believed they make a very satisfactory security, which will be very attractive to the local investor in New England.

The CHAIRMAN. You take the bonds as a security, but not as payment for the debt?

Mr. HINES. They do not owe that debt to the Government—the $20,000,000—they owe it to a great many different creditors. The Government simply buys $20,000,000 of bonds.

The CHAIRMAN. That is what I was coming to, whether it lent $20,000,000 to the Boston & Maine and held the bonds as collateral and security for the loan or whether it bought the bonds outright?

Mr. HINES. It buys the bonds and has an opportunity to sell them whenever it can.

The CHAIRMAN. At par?

Mr. HINES. Yes, sir.

The CHAIRMAN. And when it gets paid is dependent upon the market value of the bonds?

Mr. HINES. Yes, sir; or upon the maturity. But a 6 per cent first-mortgage bond on a large part of the Boston & Maine system with this large margin of safety that is secured by all the rentals being postponed to it will, it is believed, be a very desirable security in New England, and that within a comparatively short period—within two or three years—it can be disposed of.

Mr. GILLETT. Six per cent bonds?

Mr. HINES. Yes, sir.

The CHAIRMAN. Has that been carried through?

Mr. HINES. No; it is just about to be carried through. The approvals have just been obtained, and in a short time it is expected to be carried through.

The CHAIRMAN. Is there any market value upon the bonds now?

Mr. EDDY. No, sir; not so far as we know.

The CHAIRMAN. You spoke some days ago in connection with the security that the Government would take to cover betterments in the form of rolling stock, and you spoke of that security taking the form of equipment trusts. When this rolling stock is paid for by the Government and allocated to the roads, do they then undertake to issue these equipment trusts which the Government takes, or what is your method of securing those advances?

Mr. HINES. That is the general plan, that the company will issue these equipment-trust notes, and they will be taken by the Government unless some other plan is feasible at the time, which will produce the money for the Government.

The CHAIRMAN. Are they to be taken by the Government with title to them in liquidation of the date or to be held by the Government as collateral for the debt?

Mr. HINES. They are taken by the Government in liquidation of the debt. The equipment-trust notes, however, themselves constitute, either directly or indirectly, a general obligation of the corporation to pay. So that in this transaction the Government retains both the corporation's general obligation to pay and also the benefit of the security afforded by the equipment.

The CHAIRMAN. And this security presumably by its nature enhances in value from year to year by virtue of the payments that are called for upon the principal of the debt?

Mr. HINES. Yes; because the debt is paid off much more rapidly than the equipment deteriorates.

The CHAIRMAN. Mr. Hines, I assume that in the figures that have been given, and in the testimony that has been given, you have been dealing right along with what are known, generally speaking, as class 1 railroads, and have not been dealing with short-line roads.

Mr. HINES. Well, that is hardly correct. We have been dealing with the railroads which have been taken completely under Federal control. In a few instances we have taken under Federal control railroads that were below class 1, and in some instances we have excluded railroads which were regarded as class 1 railroads. Broadly speaking, however, the roads which we operate correspond closely with the class 1 railroads, and our figures relate only to the railroads which we operate.

The CHAIRMAN. Under the law which was passed, the President was given the right to take over short-line railroads, as they are called, and also given the right to relinquish the control of any of those roads that were not necessary to be controlled in connection with the general transportation problem.

Mr. HINES. The Federal-control act itself took over the short-line railroads, but gave the President the right prior to July 1, 1918, to relinquish control of all or any part of any railroad system of transportation further Federal control of which the President might deem not needful or desirable.

The CHAIRMAN. Can you state the short-line roads which you did maintain control of and any of the class 1 roads that you relinquished? Perhaps that will be the briefest way in which the matter can be stated.

Mr. HINES. I can furnish you a memorandum which will give the names of the class 1 roads which we relinquished and of the roads below class 1 which we did not relinquish.

LIST OF CLASS I RAILROADS THAT HAVE BEEN RELINQUISHED.

Arizona & New Mexico Railway Co.
Bingham & Garfield Railway Co.
Canadian Pacific Lines in Maine.
Colorado & Wyoming Railway Co.
Colorado Midland Railroad Co.
Cripple Creek & Colorado Springs Railroad Co.
Duluth, Winnipeg & Pacific Railway Co.
Nevada Northern Railway Co.
Pittsburgh, Shawmut & Northern Railroad Co.
Spokane International Railway Co.

LIST OF CLASS II AND CLASS III ROADS THAT HAVE BEEN RETAINED.

CLASS II ROADS.

Cumberland & Pennsylvania Railroad Co.
Danville & Western Railway Co.
Dayton & Union Railroad Co.
Detroit, Bay City & Western Railroad Co.
Escanaba & Lake Superior Railroad Co.
Evansville & Indianapolis Railroad Co.
Farmers Grain & Shipping Co.
Fernwood & Gulf Railroad Co.
Fort Worth & Rio Grande Railway Co.
Gallatin Valley Railway Co.
Galveston, Houston & Henderson Railroad Co.
Georgia, Florida & Alabama Railway Co.
Georgia Northern Railway Co.
Gettysburg & Harrisburg Railway Co.
Gilmore & Pittsburgh Railroad Co. (Ltd.).
Grand Canyon Railway Co.
Green Bay & Western Railroad Co.
Greenwich & Johnsonville Railway Co.
Gulf, Texas & Western Railway Co.
Harriman & Northeastern Railroad Co.
Hawkinsville & Florida Southern Railway Co.
Huntington & Broad Top Mountain Railroad & Coal Co.
Houston & Brazos Valley Railroad Co.
Houston & Shreveport Railroad Co.
Interstate Railroad Co.
Kanawha & West Virginia Railroad Co.
Kansas City, Clinton & Springfield Railway Co.
Kewaunee, Green Bay & Western Railroad Co.
Lake Charles & Northern Railroad Co.
Lake Erie & Pittsburgh Railway Co.
Lake Superior & Ishpeming Railway Co.
Litchfield & Madison Railway Co.
Lorain & West Virginia Railway Co.
Lorain, Ashland & Southern Railroad Co.
Louisiana Southern Railway Co.
Macon, Dublin & Savannah Railroad Co.
Manistee & Northeastern Railroad Co.
Manistique & Lake Superior Railroad Co.
Maryland, Delaware & Virginia Railway Co.
Memphis, Dallas & Gulf Railroad Co.
Michigan Air Line Railway.
Minnesota & International Railway Co.
Mississippi Central Railroad Co.
Montpelier & Wells River Railroad.
Morgantown & Kingwood Railroad Co.
Munising, Marquette & Southeastern Railway Co.
New Iberia & Northern Railroad Co.
New Jersey & New York Railroad Co.
New York & Long Branch Railroad Co.
Northeast Pennsylvania Railroad Co.
Northern Alabama Railway Co.
Ohio River & Western Railway Co.
Orange & Northwestern Railroad Co.
Oregon Trunk Railway.
Paris & Great Northern Railroad Co.
Perkiomen Railroad Co.
Pierre, Rapid City & Northwestern Railway Co.
Pittsburgh, Chartiers & Youghiogheny Railway Co.
Pontiac, Oxford & Northern Railroad.
Puget Sound & Willapa Harbor Railway Co.
Quanah, Acme & Pacific Railway Co.
Quincy, Omaha & Kansas City Railroad Co.
Rio Grande, El Paso & Santa Fe Railroad Co.
Rio Grande Southern Railroad Co.
Roscoe, Snyder & Pacific Railway Co.
St. Johnsbury & Lake Champlain Railroad Co.
St. Louis, Troy & Eastern Railroad Co.
San Antonio, Uvalde & Gulf Railroad Co.
Sandy Valley & Elkhorn Railway Co.
Sapulpa & Oil Field Railroad (in St. Louis-San Francisco).
Savannah & Atlanta Railway Co. (See Savannah & Northern.)
Savannah & Northwestern Railway.
Seattle, Port Angeles & Western Railway Co.
Sullivan County Railroad.
Sunset Railway Co.
Susquehanna & New York Railroad Co.
Sussex Railroad Co.
Tacoma Eastern Railroad Co.
Tallulah Falls Railway Co.
Tampa Northern Railroad Co.
Texas Midland Railroad.
Toledo, Saginaw & Muskegon Railway Co.
Vermont Valley Railroad.
Virginia-Carolina Railway Co.
Wadley Southern Railway Co.
Watertown & Sioux Falls Railway Co.
Weatherford, Mineral Wells & Northwestern Railway Co.
West Side Belt Railroad Co.

Union Freight Railroad Co.
Union Railroad Co. of Baltimore.
Union Railway Co. (Memphis, Tenn.)
Union Stockyards of Omaha.
Union Terminal Co. (Dallas, Tex.).
Union Terminal Railway Co. (St. Joseph, Mo.).
Van Buren Bridge Co.
Washington Terminal Co.
West Tulsa Belt Railway Co. (incorporated with St. Louis-San Francisco.).
Wheeling Terminal Railway Co.
Wichita Union Terminal Railway Co.
Wiggins Ferry Co.
Wilkes-Barre Connecting Railroad Co.
Winona Bridge Railway Co.
Woodstock & Blocton Railway Co.

The CHAIRMAN. As to those short lines that you did not relinquish, your statement of financial needs and operations include them as well as the class 1 roads?

Mr. HINES. That is true.

SHORT-LINE RAILROADS.

The CHAIRMAN. But you have asked nothing and apparently contemplate doing nothing in connection with the short line roads that you are not controlling.

Mr. HINES. With respect to the short-line railroads which the President relinquished, and which therefore the Railroad Administration is not operating, we have not undertaken to control their conditions and betterments, and therefore have made no plans for furnishing money on that account or furnishing any other money for improvement purposes on those short lines, or for any other purposes except to the extent that we make certain operating readjustments with them which are not necessary to be taken into consideration for present purposes.

The CHAIRMAN. But perhaps for the record it may be well to understand just what, if anything, has been done in the way of relationship with them in connection with operation to relieve the situation which they claimed would exist, and would be detrimental to them as a result of the Government taking control of the class 1 roads.

Mr. HINES. We have made an arrangement whereby we will make cooperative contracts with the short-line railroads which were relinquished. Under those contracts we relieve them of the per diem on freight cars which but for this arrangement they would owe the Railroad Administration for the use of such cars, and this release is to go back to March 21, the date of the Federal control act. We have also arranged to protect them for the future in the amount of competitive traffic, where there was competitive traffic, equal to that which they enjoyed on an average during the test period; that is during the three years ending June 30, 1917, and we have also arranged to make with them a readjustment through a cash payment for competitive traffic which they may claim to have lost and the loss of which they may establish to our satisfaction from March 21, 1918, the date of the Federal control act, down to the date of the contract. These are what I spoke of as cash payments in connection with operating readjustments. I think the concessions thus made will reasonably protect these short lines against the difficulties which they have pointed out as being incident to their situation of not being included under Federal operation.

The following is a copy of the short-line contract.

Beaumont Wharf & Terminal Co.
Belington & Northern Railroad Co.
Belt Railway Co. of Chicago.
Birmingham Belt Railroad Co. (incorporated with St. Louis-San Francisco).
Birmingham Terminal Co.
Boston Terminal Co.
Brooklyn Eastern District Terminal.
Buffalo Creek Railroad.
Calumet Western Railway Co.
Central Transfer Railway & Storage Co.
Central Union Depot & Railway Co. of Cincinnati.
Charleston Terminal Co.
Charleston Union Station Co.
Chattanooga Station Co.
Chicago & Western Indiana Railroad Co.
Chicago Heights Terminal Transfer Railroad Co.
Chicago Junction Railway Co.
Chicago River & Indiana Railroad Co.
Columbia Union Station Co.
Connecting Terminal Railroad Co.
Dallas Terminal Railway & Union Depot Co.
Davenport, Rock Island & Northwestern Railway Co.
Dayton Union Railway Co.
Denver Union Terminal Railway Co.
Des Moines Union Railway Co.
Detroit Terminal Railroad Co.
Duluth & Superior Bridge Co.
Duluth Terminal Railway Co.
Dunleigh & Dubuque Bridge Co.
Durham Union Station Co.
East St. Louis Connecting Railway Co.
Eddystone & Delaware River Railroad Co.
El Paso Union Passenger Depot Co.
Fort Street Union Depot Co.
Fort Worth Belt Railway Co.
Galveston Wharf Co.
Gulf Terminal Co.
Hamilton Belt Railway Co.
Hannibal Union Depot Co.
Houston Belt & Terminal Railway Co.
Illinois Terminal Railroad Co.
Indiana Harbor Belt Railroad Co.
Indianapolis Union Railway Co.
Iowa Transfer Railway Co.
Jacksonville Terminal Co.
Joliet Union Depot Co.
Joplin Union Depot Co.
Kansas City Connecting Railroad Co.
Kansas City, Shreveport & Gulf Terminal Co.
Kansas City Terminal Railway Co.
Kentucky & Indiana Terminal Railroad Co.
Keokuk & Hamilton Bridge Co.
Keokuk Union Depot Co.
Lake Erie & Eastern Railroad Co.
Lake Superior Terminal & Transfer Railway Co. of the State of Wisconsin.
Leavenworth Depot & Railroad Co.
Leavenworth Terminal Railway & Bridge Co.
Lexington Union Station Co.
Macon Terminal Co.
Memphis Union Station Co.
Meridian Terminal Co.
Milwaukee Terminal Railway Co.
Minneapolis Eastern Railway Co.
Minneapolis Western Railway Co.
Minnesota Transfer Railway Co.
Missouri & Illinois Bridge & Belt Railroad Co.
Missouri Valley & Blair Railway & Bridge Co.
Muncie Belt Railway Co.
Natchez & Southern Railway Co.
New Orleans Terminal Co.
Norfolk & Portsmouth Belt Line Railroad Co.
Norfolk Terminal Railway Co.
Northern Pacific Terminal Co. of Oregon.
Northwestern Terminal Railway Co.
Ogden Union Railway & Depot Co.
Pennsylvania Terminal Railway Co.
Peoria & Pekin Union Railway Co.
Peoria Railway Terminal Co.
Philadelphia Belt Line Railroad Co.
Port Huron Southern Railroad Co.
Portland Terminal Co.
Port St. Joe Dock & Terminal Co.
Pueblo Union Depot & Railroad Co.
Railway Transfer Co. of the City of Minneapolis.
Rock Island-Frisco Terminal Railway Co.
St. Clair Tunnel Co.
St. Johns River Terminal Co.
St. Joseph Belt Railway Co.
St. Joseph Terminal Railroad Co.
St. Joseph Union Depot Co.
St. Louis Merchants' Bridge Terminal Railway Co.
St. Louis National Stock Yards (railroad department).
St. Louis Transfer Railway Co.
St. Paul Bridge & Terminal Co.
St. Paul Union Depot Co.
Ste. Marie Union Depot Co.
Salt Lake City Union Depot & Railroad Co.
Savannah Union Station Co.
Sharpsville Railroad Co.
Shreveport Bridge & Terminal Co.
Sioux City Bridge Co.
Sioux City Terminal Railway Co.
Southern Illinois & Missouri Bridge Co.
Tampa Union Station Co.
Terminal Railroad Association of St. Louis.
Toledo Terminal Railroad Co.
Trans-Mississippi Terminal Railroad Co.
Troy Union Railroad Co.
Union Depot Co. (Columbus, Ohio).

Union Freight Railroad Co.
Union Railroad Co. of Baltimore.
Union Railway Co. (Memphis, Tenn.)
Union Stockyards of Omaha.
Union Terminal Co. (Dallas, Tex.).
Union Terminal Railway Co. (St. Joseph, Mo.).
Van Buren Bridge Co.
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The following is a copy of the short-line contract.

[Short-line form.]

AGREEMENT BETWEEN THE DIRECTOR GENERAL OF RAILROADS AND THE ——— Co. ———, 1919.

AGREEMENT.

This agreement made this ——— day of ———, 1919, between the Director General of Railroads (hereinafter called the Director General), acting on behalf of the United States and the President, under the powers conferred on him by the proclamation of the President, hereinafter referred to, and the ——— Co., a corporation duly organized under the laws of the State(s) of ——— (hereinafter called the Company):

Witnesseth that: (*a*) Whereas by a proclamation dated December 26, 1917, the President, acting under the powers conferred on him by the Constitution and laws of the United States, by virtue of the joint resolutions of the Senate and House of Representatives bearing date April 6 and December 7, 1917, respectively, and particularly by virtue of section 1 of the act of Congress approved August 29, 1916, entitled "An act making appropriations for the support of the Army for the fiscal year ending June 30, 1917, and for other purposes," took possession of and assumed control at 12 o'clock noon on December 28, 1917, for war purposes of certain railroads constituting a system or systems of transportation (not including the railroad of the Company described herein) and appointed William G. McAdoo, Director General of Railroads; and

(*b*) Whereas the act of Congress called herein the Federal control act, approved by the President March 21, 1918, brought under Federal control the railroad hereinafter described under the following provision: "That every railroad not owned, controlled, or operated by another carrier company, and which has heretofore competed for traffic with a railroad or railroads of which the President has taken the possession, used, and control, or which connects with such railroads and is engaged as a common carrier in general transportation, shall be held and considered as within 'Federal control,' as herein defined, and necessary for the prosecution of the war and shall be entitled to the benefit of all the provisions of this act;" and

(*c*) Whereas by proclamation, dated March 29, 1918, the President, pursuant to said Federal control act authorized the said William G. McAdoo, as Director General either personally or through such divisions, agencies, or persons as he may appoint and in his own name, or in the name of such divisions, agencies, or persons, or in the name of the President, to make with the carriers, or any of them, such agreements as may be necessary and expedient respecting any matter concerning which it may be necessary or expedient to deal and to make any and all contracts, agreements, or obligations necessary or expedient in connection with the Federal control of such railroads as fully in all respects as the President might do; and

(*d*) Whereas the said William G. McAdoo has resigned as Director General of Railroads, and by a proclamation dated January 10, 1919, the President appointed Walker D. Hines Director General of Railroads and authorized him, either personally or through such divisions, agencies, or persons as he may appoint, in his own name or in the name of such divisions, agencies, or persons, or in the name of the President, to make with the carriers, or any of them, the agreements, contracts, or obligations aforesaid:

Now, therefore, the parties hereto, each in consideration of the agreements of the other herein contained, do hereby covenant and agree to and with each other as follows:

SEC. 1. (*a*) This agreement shall be binding upon the United States, the Director General, and his successors, and upon the Company, its successors, and assigns. ———.

This agreement shall not be construed as creating any right, claim, privilege, or benefit against either party hereto in favor of any State or any subdivision thereof, or of any individual or corporation other than the parties hereto.

(*b*) Wherever in this agreement the words Director General are used, they shall be understood as designating the person who has been, or may from time to time be, appointed by the President to exercise the powers conferred on him by law with relation to Federal control.

SEC. 2. The Company's said railroad affected by this agreement shall be considered as including the following roads and properties: ———.

SEC. 3. (*a*) The Company accepts the terms and conditions of said Federal control act and the terms of this agreement, and expressly accepts the covenants and obligations of the Director General in this agreement set out and the rights arising thereunder in full adjustment, settlement, satisfaction, and discharge of any

and all claims and rights, at law or in equity, which it now has or hereafter can have against the United States, the President, the Director General, or any agent or agency thereof by virtue of anything done or omitted, pursuant to the acts of Congress herein referred to.

This is not intended to affect any claim said Company may have against the United States for carrying the mails or for other services rendered not pertaining to or based upon the Federal control act.

(b) The Company, on its own initiative or upon the request of the Director General, shall take all appropriate and necessary corporate action to carry out the obligations assumed by it in this agreement or lawfully imposed upon it by or pursuant to the Federal control act.

SEC. 4. It is expressly agreed and understood that the possession and use of the railroad property herein described, subject to the right of the Director General to take the said property into actual possession as hereinafter provided as a war emergency shall remain in the Company, and the Company shall continue to operate the same, and all revenues accruing from the operation thereof shall belong to the Company, and all expenses arising out of or incident thereto, and all taxes of whatsoever character imposed thereon, or upon the Company shall be paid and borne by the Company, it being expressly agreed that unless and until the Director General shall as a war necessity take over the actual possession and operation of said railroad, he assumes no obligation for the payment of any expenses or charges in connection therewith, nor of any risk or accident in connection with the operation or control of said property.

SEC. 5. All rates, fares, and charges for transportation services performed jointly by the Company and any transportation system in the possession of, and operated by, the Director General shall be divided fairly between the Director General and the Company. It is agreed that the arbitraries and percentages of joint rates, both passenger and freight, received by the Company as of January 1, 1918, shall not be reduced, and whenever joint rates have been or shall be increased, the Company shall receive as its proportion of such increased joint rates amounts in the same ratio as its arbitraries or percentages bore to the joint rates before they were increased.

SEC. 6. The company shall receive an equitable allotment of the cars (and, where feasible, motive power) in the possession or under the control of the Director General. For the equipment thus furnished it shall pay the per diem rentals now in effect or as they may be established from time to time by the Director General, and like rentals shall be paid by the Director General to the company for any of the company's equipment used by him: *Provided, however*, That there shall be a time or reclaim allowance to roads of 100 miles or less in length of two days, which will be assumed by the delivering road.

SEC. 7. Such arrangement shall be made for the routing over the company's line of competitive traffic as shall insure to the company in any month the same proportion of such competitive traffic as it had of the total of such traffic for the average of the three years, counting the calendar years of 1915, 1916, and 1917, taking into account both class and quantity of tonnage, it being understood and agreed that if in any month such proportion of competitive traffic delivered to the company shall be less than that based on the average for the three-year period the Director General will, within 60 days after the close of any such month, deliver such additional amount of competitive traffic as shall make up the required amount.

SEC. 8. If differences arise as to any matter arising under this contract, either party may refer the question to the Interstate Commerce Commission, and its decision shall be final and binding.

SEC. 9. The company, so far as practicable, shall have the right to use the purchasing agencies of the Director General in the purchase of materials and supplies at the prices which the Director General shall pay therefor, and to have its repairs done in the shops of its connecting lines to the same extent and upon the same terms as were enjoyed before Federal control; where roads have heretofore not had the repairs done at the shops of the connecting line, but at private shops which have since been closed, they may have their repairs done at the shops of the connection line upon fair terms.

SEC. 10. There shall be no discrimination against the company in the matter of publishing tariffs and routing. In all publication of rates, tariffs, and routing, covering the territory in which the company's road is situated, the company shall be treated in the same manner as the trunk lines, except that nothing in this section shall be construed to require the establishment of joint rates where joint rates were not in effect at the commencement of Federal control.

SEC. 11. It is expressly agreed that if in the opinion of the Director General a necessity shall arise making it necessary or desirable for any purpose connected with the war, for the Director General to take into his own hands the possession, control, and operation of said railroad and the properties herein described, he shall have the right to do so. In such event this contract shall be terminated and a new contract made providing for the payment of compensation as provided by the Federal control act; and if in the meantime it becomes necessary in his opinion to issue any orders or directions to said company affecting the movement of troops or war supplies, said company shall obey such orders or directions.

SEC. 12. In view of the foregoing covenants and agreements, and subject thereto, the order of relinquishment issued on the ...... day of June, 1918, is hereby rescinded and set aside as of the date when the same was issued; and the said railroad and the properties herein described are hereby brought fully within the terms and under the control of the said Federal control act, the same in all respects as if the said order of relinquishment had not been issued.

SEC. 13. The Director General will formulate definite rules and regulations governing exchange transportation, which rules and regulations shall be made applicable to the company without discrimination.

EXECUTION.

In witness whereof, these present have, on the day and year first above written, been duly signed, sealed, and delivered by the Director General of Railroads, and duly signed, sealed, and delivered by the ......, by its president, and its corporate seal affixed hereto, attested by its secretary, such execution and delivery on the part of said company having been duly authorized and directed by vote of its board of directors at a meeting duly called and properly held on the ...... day of ......, 191.., which action of said board of directors was duly authorized by vote of the stockholders of the said company, at a meeting duly called and properly held at ...... on ......, certificates of which meetings, duly attested by the secretary of said company, have been lodged with the Director General.

....,
Director General of Railroads
...... Rail...... Co.
By ....,
President.

Attest:
...., *Secretary.*

The CHAIRMAN. When you took over the class 1 roads, you took with them, did you not, their arrangements and obligations in connection with these short-line roads?

Mr. HINES. There were practically no specific arrangements that they had. There was a virtually universal plan by which each railroad company paid any other railroad company a per diem on cars of the latter company used by the former. The arrangement about the traffic rested on competitive conditions. Under private management the class 1 railroads had given the short lines such traffic as was to the interest of the class 1 railroads to give. This resulted, of course, in a particular class 1 railroad sharing certain competitive traffic with a short line so as to avoid the traffic going entirely by some other class 1 railroad. Of course, under Federal control no such incentive existed, and it was naturally to the interest of the Government to haul the traffic exclusively on the railroads which it was operating, and thereby keep it off of the short lines as far as possible. This condition, however, has been allowed for and compensated for by the arrangements which I have mentioned, which insure to the

short lines for the future the same amount of competitive traffic which they enjoyed during the test period, and which makes a money adjustment to them for the past, back to March 21, with respect to any competitive traffic they may establish they lost during that time as an incident of the Federal operation of the class 1 roads.

The CHAIRMAN. Does the Federal-control act give you the right and power to make such agreements?

Mr. HINES. Yes; that is the view of our division of law. The fact s, that under this cooperative contract we retain a technical control over the short lines, and the adjustment we make, we believe, is more in the interest of the Government than to take over the actual operation of those lines and pay them a rental.

The CHAIRMAN. Is it more to the interest of the Government, leaving aside the interest the Government may have in preserving the credit and standing of these railroads generally, to make this arrangement, than to do the economic thing which your statement a few moments ago implied, of carrying traffic without regard to the fortunes of particular roads that were considered only by the class 1 roads, in order to prevent some other class 1 roads from getting competitive business?

Mr. HINES. If we had not interest in the matter beyond the mere operation of the railroads actually under Federal operation, the natural thing to do would be not to make this allowance; but we are charged, as we look at it, with a measure of responsibility for the general situation, and we do not feel we could properly adopt a course which would result in so injuring these short-line railroads as to disable them to perform the public service for which local communities are dependent upon them. We feel, under the discretion vested in the President, that the roads could have been retained in complete Federal operation, and thereby the Government, in order to keep them adequately serving the public, would have assumed a very heavy responsibility for rentals. We feel the course we have adopted involves a much less burden on the Government and accomplishes the same public interest, and that therefore the power we have exercised is a lesser power included in the greater power that the act conferred.

The CHAIRMAN. How much in money value does this agreement cost the Railroad Administration over and beyond what it would cost if it did not permit them to do business which, from the standpoint of pure economy of traffic, there was no justification for giving to them?

Mr. HINES. I have not an exact figure about that, and I would rather make an inquiry. I have had some general figures given me, but I would rather have them verified so as to give you a more accurate figure.

NOTE.—The director general subsequently filed a statement showing an estimate of the amount of the probable obligation of the Railroad Administration in connection with the short-line railroad contract, as follows:

Estimate of amount that will be payable to short-line railroads under cooperative contract.

Adjustment of per diem charges	$500,000
Readjustment of traffic	2,000,000
	2,500,000

It should be noted that the above figures are necessarily tentative, as the agreement with the short lines has only recently been reached. No complete statements have yet been compiled representative of the situation of all the short lines involved. The above figures, it is believed, represent the outside estimate of the Railroad Administration's obligation in this matter.

Mr. EAGAN. Mr. Hines, what method did you pursue in establishing this loss on competitive traffic, which the short-line railroads would have received under private ownership?

Mr. HINES. We have figures which show the traffic which these companies got during the test period—the three years ending June 30, 1917. As to each company it is relatively easy to ascertain, through the figures available at the junction points, what competitive traffic there was interchanged between the short line and the trunk line, and on that basis we can compute the amount of competitive traffic they ought to receive per year during the period of Federal control, and the arrangement is that we see that they get substantially that amount of traffic per year during Federal control. Now, for the period that has elapsed we propose to pay them 66⅔ per cent of the gross revenue on competitive traffic, which they can establish they lost by reason of Federal control. In other words, the traffic was handled by the lines operated by the Government and those lines got the entire revenue, and it is estimated that the actual out-of-pocket cost in handling that traffic was 33⅓ per cent of the gross revenue, and the other 66⅔ per cent we pay them just as a reimbursement for the loss of that traffic.

ALLOWANCE OF DIVIDENDS.

The CHAIRMAN. Mr. Hines, could you supply a table showing the amount of dividends which is recognized under the contract made with the railroads, together with the fixed charges, to be the necessary amount of the rentals which must be paid and against which deductions can not be made for capital advances?

Mr. HINES. Yes; I will supply that. I want to emphasize that under the contract we do not obligate ourselves absolutely not to deduct against dividends, but we declare it is our policy not to do it where other reasonable means for financing are adopted.

(The statement is as follows regarding what amount of dividend is recognized by the United States Railroad Administration:)

Section 7, paragraph (*b*) of the standard form of contract, provides as follows:

"The power provided in this paragraph to deduct the amount due by the company for the cost of additions and betterments not justly chargeable to the United States is further declared to be an emergency power, to be used by the Director General only when he finds that no other reasonable means is provided by the company to reimburse the United States, and, as contemplated by the President's proclamation and by the Federal control act, it will be the policy of the Director General to so use such power of deduction as not to interrupt unnecessarily the regular payment of dividends as made by the company during the test period."

The actual dividends paid by the railroad companies during 1918 have not been reported to the Railroad Administration, as it was not necessary for the railroad companies to take the question of dividends up with the administration when the rate was the same as that of the test period or lower. Consequently, the only information available at this time in regard to dividends is in connection with rates that were higher than those of the test period.

The dividends paid by the railroad companies in 1918 will probably not exceed the amounts paid in 1917. For Class I roads this amount is reported by the Interstate

Commerce Commission, in Preliminary Abstract of Statistics of Common Carriers for the year ended December 31, 1917, to be as follows:

Dividend appropriations of income	$221,482,375
Dividend appropriations of surplus	99,573,405
Total	321,055,780
Less dividends of Class I roads relinquished	2,448,900
	318,606,880

In connection with these dividends payment, as recognized by the United States Railroad Administration, it should be noted that the administration has taken the position that the contract provision quoted above, as protecting the regular dividend of the test period, gives the Director General the right to apply the income of the railroad companies from other sources than the standard return to the payment of regular dividends in arriving at the amount of the standard return, which is applicable to dividend payments.

In 1917 this amounted to approximately $229,284,457, for Class I roads, so that after deducting this amount from the dividend figure given above, there remains a balance of $89,322,423, which may be said to prepresent the maximum amount of the standard return which the Railroad Administration recognizes may properly be applied to payment of dividends.

PAYMENTS DUE OR TO BECOME DUE AND TO BE SETTLED BY GOVERNMENT.

The CHAIRMAN. It has appeared, incidentally to other matters, that most of the money which you calculate the Government will have to pay out will need to be paid very shortly—$381,000,000 of it, representing the last calendar year's transactions, you need in order to fully meet the present program in connection with the payment of rentals?

Mr. HINES. Yes; and the settlements generally with the corporations for the calendar year 1918.

The CHAIRMAN. How rapidly do you expect to make those settlements?

Mr. HINES. My judgment is that within the next 60 days we will be confronted with demands from a large number of companies for settlements for the calendar year 1918. Under existing conditions I anticipate that contracts with the rest of the companies will be signed very rapidly, as all the details have been pretty well thrashed out, and as rapidly as these contracts are signed the companies with which the contracts are made will be seeking the earliest practicable settlement; so that my judgment is that not only a large number of the companies will be seeking settlements within the next 60 days, but that practically all the companies will be pressing for settlement within 90 days.

The CHAIRMAN. How do you pay these rentals—in quarterly payments?

Mr. HINES. The rentals are due quarterly according to the contract, but of course they do not become so due until the contract is signed; but under the contract they are due quarterly.

The CHAIRMAN. In point of fact, you have been making advances on account of rentals from time to time?

Mr. HINES. To a considerable extent; and that is all reflected in the figures which go to make up this net amount of $381,000,000 due for 1918.

The CHAIRMAN. Now, how rapidly will you have to meet payments for the betterments that you have undertaken, and which involve additional expenditures that you figure on making out of this appropriation?

Mr. HINES. As to the equipment, $286,000,000 for this year, that entire amount will probably be due and payable by the end of May, and it ought to be paid at the rate of about $50,000,000 per month. On account of the present shortage in our cash, we have been able to pay but about $25,000,000 in January, so that we are holding back bills that ought to be paid. The whole amount of $286,000,000 ought to be paid by the month of June. Aside from that, there is the Boston and Maine $20,000,000. I anticipate that that will be expected in order to close that reorganization within 30 days, or certainly within 60 days. The $12,000,000 for inland waterways, I believe, will all be due and payable by the 1st of May, as it is expected that all of those units of equipment are to be ready for use by spring. In addition to that we have the current program for additions and betterment work that would run on the average throughout the year at the rate of about $50,000,000 per month, although in the winter months it would probably be less than the average and in the summer months more. Of course, it is anticipated that to a considerable extent these expenditures will be taken care of out of surplus income and out of what the corporations can finance. Leaving aside that matter, I estimate that $700,000,000 for the items I have mentioned for settlement of 1918, for the equipment which the Government has ordered, the Boston and Maine reorganization and the inland waterways equipment will all have to be paid within the first six months of this calendar year, and a very large part of the total within the first four months of the calendar year.

LAWS CONCERNING FEDERAL CONTROL OF TRANSPORTATION SYSTEMS.

Army Appropriation Act, fiscal year 1917.

The President, in time of war, is empowered, through the Secretary of War, to take possession and assume control of any system or systems of transportation, or any part thereof, and to utilize the same, to the exclusion as far as may be necessary of all other traffic thereon, for the transfer or transportation of troops, war material and equipment, or for such other purposes connected with the emergency as may be needful or desirable.

Approved, August 29, 1916.

[PUBLIC—No. 107—65TH CONGRESS.]

[S. 3752.]

An Act To provide for the operation of transportation systems while under Federal control, for the just compensation of their owners, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the President, having in time of war taken over the possession, use, control, and

operation (called herein Federal control) of certain railroads and systems of transportation (called herein carriers), is hereby authorized to agree with and to guarantee to any such carrier making operating returns to the Interstate Commerce Commission, that during ther period of such Federal control it shall receive as just compensation an annual sum, payable from time to time in reasonable installments, for each year and pro rata for any fractional year of such Federal control, not exceeding a sum equivalent as nearly as may be to its average annual railway operating income for the three years ended June thirtieth, nineteen hundred and seventeen.

That any railway operating income accruing during the period of Federal control in excess of such just compensation shall remain the property of the United States. In the computation of such income, debits and credits arising from the accounts called in the monthly reports to the Interstate Commerce Commission equipment rents and joint facility rents shall be included, but debits and credits arising from the operation of such street electric passenger railways, including railways commonly called interurbans, as are at the time of the agreement not under Federal control, shall be excluded. If any lines were acquired by, leased to, or consolidated with such railroad or system between July first, nineteen hundred and fourteen, and December thirty-first, nineteen hundred and seventeen, both inclusive, and separate operating returns to the Interstate Commerce Commission were not made for such lines after such acquisition, lease, or consolidation, there shall (before the average is computed) be added to the total railway operating income of such railroad or system for the three years ended June thirtieth, nineteen hundred and seventeen, the total railway operating income of the lines so acquired, leased, or consolidated, for the period beginning July first, nineteen hundred and fourteen, and ending on the date of such acquisition, lease, or consolidation, or on December thirty-first, nineteen hundred and seventeen, whichever is the earlier. The average annual railway operating income shall be ascertained by the Interstate Commerce Commission and certified by it to the President. Its certificate shall, for the purpose of such agreement, be taken as conclusive of the amount of such average annual railway operating income.

Every such agreement shall provide that any Federal taxes under the Act of October third, nineteen hundred and seventeen, or Acts in addition thereto or in amendment thereof, commonly called war taxes, assessed for the period of Federal control beginning January first, nineteen hundred and eighteen, or any part of such period, shall be paid by the carrier out of its own funds, or shall be charged against or deducted from the just compensation; that other taxes assessed under Federal or any other governmental authority for the period of Federal control or any part thereof, either on the property used under such Federal control or on the right to operate as a carrier, or on the revenues or any part thereof derived from operation (not including, however, assessments for public improvements or taxes assessed on property under construction, and chargeable under the classification of the Interstate Commerce Commission to investment in road and equipment), shall be paid out of revenues derived from railway operations while under Federal control; that all taxes assessed under Federal or any other governmental authority for the

period prior to January first, nineteen hundred and eighteen, whenever levied or payable, shall be paid by the carrier out of its own funds, or shall be charged against or deducted from the just compensation.

Every such agreement shall also contain adequate and appropriate provisions for the maintenance, repair, renewals and depreciation of the property, for the creation of any reserves or reserve funds found necessary in connection therewith, and for such accounting and adjustments of charges and payments, both during and at the end of Federal control as may be requisite in order that the property of each carrier may be returned to it in substantially as good repair and in substantially as complete equipment as it was in at the beginning of Federal control, and also that the United States may, by deductions from the just compensations or by other proper means and charges, be reimbursed for the cost of any additions, repairs, renewals, and betterments to such property not justly chargeable to the United States; in making such accounting and adjustments, due consideration shall be given to the amounts expended or reserved by each carrier for maintenance, repairs, renewals, and depreciation during the three years ended June thirthieth, nineteen hundred and seventeen, to the condition of the property at the beginning and at the end of Federal control and to any other pertinent facts and circumstances.

The President is further authorized in such agreement to make all other reasonable provisions, not inconsistent with the provisions of this Act or of the Act entitled "An Act making appropriations for the support of the Army for the fiscal year ending June thirtieth, nineteen hundred and seventeen, and for other purposes," approved August twenty-ninth, nineteen hundred and sixteen, that he may deem necessary or proper for such Federal control or for the determination of the mutual rights and obligations of the parties to the agreement arising from or out of such Federal control.

If the President shall find that the condition of any carrier was during all or a substantial portion of the period of three years ended June thirtieth, nineteen hundred and seventeen, because of non-operation, receivership, or where recent expenditures for additions or improvements or equipment were not fully reflected in the operating railway income of said three years or a substantial portion thereof, or because of any undeveloped or abnormal conditions, so exceptional as to make the basis of earning hereinabove provided for plainly inequitable as a fair measure of just compensation, then the President may make with the carrier such agreement for such amount as just compensation as under the circumstances of the particular case he shall find just.

That every railroad not owned, controlled, or operated by another carrier company, and which has heretofore competed for traffic with a railroad or railroads of which the President has taken the possession, use, and control, or which connects with such railroads and is engaged as a common carrier in general transportation, shall be held and considered as within "Federal control," as herein defined, and necessary for the prosecution of the war, and shall be entitled to the benefit of all the provisions of this Act: *Provided, however,* That nothing in this paragraph shall be construed as including any street or interurban electric railway which has as its principal source of

to be convenient and available for the making of such agreement as is authorized in section one. The President is authorized to enter into an agreement with such carrier for just compensation upon a basis not in excess of that reported by such board, and may include therein provisions similar to those authorized under section one. Failing such agreement, either the United States or such carrier may file a petition in the Court of Claims for the purpose of determining the amount of such just compensation, and in the proceedings in said court the report of said referees shall be prima facie evidence of the amount of just compensation and of the facts therein stated. Proceedings in the Court of Claims under this section shall be given precedence and expedited in every practicable way.

SEC. 4. That the just compensation that may be determined as hereinbefore provided by agreement or that may be adjudicated by the Court of Claims, shall be increased by an amount reckoned at a reasonable rate per centum to be fixed by the President upon the cost of any additions and betterments, less retirements, and upon the cost of road extensions to the property of such carrier made by such carrier with the approval of or by order of the President while such property is under Federal control.

SEC. 5. That no carrier while under Federal control shall, without the prior approval of the President, declare or pay any dividend in excess of its regular rate of dividends during the three years ended June thirtieth, nineteen hundred and seventeen: *Provided, however*, That such carriers as have paid no regular dividends or no dividends during said period may, with the prior approval of the President, pay dividends at such rate as the President may determine.

SEC. 6. That the sum of $500,000,000 is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, which, together with any funds available from any operating income of said carriers, may be used by the President as a revolving fund for the purpose of paying the expenses of the Federal control, and so far as necessary the amount of just compensation, and to provide terminals, motive power, cars, and other necessary equipment, such terminals, motive power, cars, and equipment to be used and accounted for as the President may direct and to be disposed of as Congress may hereafter by law provide.

The President may also make or order any carrier to make any additions, betterments, or road extensions, and to provide terminals, motive power cars and other equipment necessary or desirable for war purposes or in the public interest on or in connection with the property of any carrier. He may from said revolving fund advance to such carrier all or any part of the expense of such additions, betterments, or road extensions, and to provide terminals, motive power, cars, and other necessary equipment so ordered and constructed by such carrier or by the President, such advances to be charged against such carrier and to bear interest at such rate and be payable on such terms as may be determined by the President, to the end that the United States may be fully reimbursed for any sums so advanced.

Any loss claimed by any carrier by reason of any such additions, betterments, or road extensions so ordered and constructed may be determined by agreement between the President and such carrier; failing such agreement the amount of such loss shall be ascertained as provided in section three hereof.

From said revolving fund the President may expend such an amount as he may deem necessary or desirable for the utilization and operation of canals, or for the purchase, construction, or utilization and operation of boats, barges, tugs, and other transportation facilities on the inland, canal, and coastwise waterways, and may in the operation and use of such facilities create or employ such agencies and enter into such contracts and agreements as he shall deem in the public interest.

SEC. 7. That for the purpose of providing funds requisite for maturing obligations or for other legal and proper expenditures, or for reorganizing railroads in receivership, carriers may, during the period of Federal control, issue such bonds, notes, equipment trust certificates, stock, and other forms of securities, secured or unsecured by mortgage, as the President may first approve as consistent with the public interest. The President may, out of the revolving fund created by this Act, purchase for the United States all or any part of such securities at prices not exceeding par, and may sell such securities whenever in his judgment it is desirable at prices not less than the cost thereof. Any securities so purchased shall be held by the Secretary of the Treasury, who shall, under the direction of the President, represent the United States in all matters in connection therewith in the same manner as a private holder thereof. The President shall each year as soon as practicable after January first, cause a detailed report to be submitted to the Congress of all receipts and expenditures made under this section and section six during the preceding calendar year.

SEC. 8. That the President may execute any of the powers herein and heretofore granted him with relation to Federal control through such agencies as he may determine, and may fix the reasonable compensation for the performance of services in connection therewith, and may avail himself of the advice, assistance, and cooperation of the Interstate Commerce Commission and of the members and employees thereof, and may also call upon any department, commission, or board of the Government for such services as he may deem expedient. But no such official or employee of the United States shall receive any additional compensation for such services except as now permitted by law.

SEC. 9. That the provisions of the Act entitled "An Act making appropriations for the support of the Army for the fiscal year ending June thirtieth, nineteen hundred and seventeen, and for other purposes," approved August twenty-ninth, nineteen hundred and sixteen, shall remain in force and effect except as expressly modified and restricted by this Act; and the President, in addition to the powers conferred by this Act, shall have and is hereby given such other and further powers necessary or appropriate to give effect to the powers herein and heretofore conferred. The provisions of this Act shall also apply to any carriers to which Federal control may be hereafter extended.

SEC. 10. That carriers while under Federal control shall be subject to all laws and liabilities as common carriers, whether arising under State or Federal laws or at common law, except in so far as may be inconsistent with the provisions of this Act or any other Act applicable to such Federal control or with any order of the President. Actions at law or suits in equity may be brought by

and against such carriers and judgments rendered as now provided by law; and in any action at law or suit in equity against the carrier, no defense shall be made thereto upon the ground that the carrier is an instrumentality or agency of the Federal Government. Nor shall any such carrier be entitled to have transferred to a Federal court any action heretofore or hereafter instituted by or against it which action was not so transferable prior to the Federal control of such carrier; and any action which has heretofore been so transferred because of such Federal control or of any Act of Congress or official order or proclamation relating thereto shall upon motion of either party be retransferred to the court in which it was originally instituted. But no process, mesne or final, shall be levied against any property under such Federal control.

That during the period of Federal control, whenever in his opinion the public interest requires, the President may initiate rates, fares, charges, classifications, regulations, and practices by filing the same with the Interstate Commerce Commission, which said rates, fares, charges, classifications, regulations, and practices shall not be suspended by the commission pending final determination.

Said rates, fares, charges, classifications, regulations, and practices shall be reasonable and just and shall take effect at such time and upon such notice as he may direct, but the Interstate Commerce Commission shall, upon complaint, enter upon a hearing concerning the justness and reasonableness of so much of any order of the President as establishes or changes any rate, fare, charge, classification, regulation, or practice of any carrier under Federal control, and may consider all the facts and circumstances existing at the time of the making of the same. In determining any questions concerning any such rates, fares, charges, classifications, regulations, or practices or changes therein, the Interstate Commerce Commission shall give due consideration to the fact that the transportation systems are being operated under a unified and coordinated national control and not in competition.

After full hearing the commission may make such findings and orders as are authorized by the act to regulate commerce as amended, and said findings and orders shall be enforced as provided in said Act: *Provided, however,* That when the President shall find and certify to the Interstate Commerce Commission that in order to defray the expenses of Federal control and operation fairly chargeable to railway operating expenses, and also to pay railway tax accruals other than war taxes, net rents for joint facilities and equipment, and compensation to the carriers, operating as a unit, it is necessary to increase the railway operating revenues, the Interstate Commerce Commission in determining the justness and reasonableness of any rate, fare, charge, classification, regulation or practice shall take into consideration said finding and certificate by the President, together with such recommendations as he may make.

SEC. 11. That every person or corporation, whether carrier or shipper, or any receiver, trustee, lessee, agent, or person acting for or employed by a carrier or shipper, or other person, who shall knowingly violate or fail to observe any of the provisions of this Act, or shall knowingly interfere with or impede the possession, use, operation, or control of any railroad property, railroad, or transportation system hitherto or hereafter taken over by the President.

or shall knowingly violate any of the provisions of any order or regulation made in pursuance of this Act, shall be guilty of a misdemeanor, and shall, upon conviction, be punished by a fine of not more than $5,000, or, if a person, by imprisonment for not more than two years, or both. Each independent transaction constituting a violation of, or a failure to observe, any of the provisions of this Act, or any other entered in pursuance hereof, shall constitute a separate offense. For the taking or conversion to his own use or the embezzlement of money or property derived from or used in connection with the possession, use, or operation of said railroads or transportation systems, the criminal statutes of the United States, as well as the criminal statutes of the various States where applicable, shall apply to all officers, agents, and employees engaged in said railroad and transportation service, while the same is under Federal control, to the same extent as to persons employed in the regular service of the United States. Prosecutions for violations of this Act or of any order entered hereunder shall be in the district courts of the United States, under the direction of the Attorney General, in accordance with the procedure for the collection and imposing of fines and penalties now existing in said courts.

SEC. 12. That moneys and other property derived from the operation of the carriers during Federal control are hereby declared to be the property of the United States. Unless otherwise directed by the President, such moneys shall not be covered into the Treasury, but such moneys and property shall remain in the custody of the same officers, and the accounting thereof shall be in the same manner and form as before Federal control. Disbursements therefrom shall, without further appropriation, be made in the same manner as before Federal control and for such purposes as under the Interstate Commerce Commission classification of accounts in force on December twenty-seventh, nineteen hundred and seventeen, are chargeable to operating expenses or to railway tax accruals and for such other purposes in connection with Federal control as the President may direct, except that taxes under Titles One and Two of the Act entitled "An Act to provide revenue to defray war expenses, and for other purposes," approved October third, nineteen hundred and seventeen, or any Act in addition thereto or in amendment thereof, shall be paid by the carrier out of its own funds. If Federal control begins or ends during the tax year for which any taxes so chargeable to railway tax accruals are assessed, the taxes for such year shall be apportioned to the date of the beginning or ending of such Federal control, and disbursements shall be made only for that portion of such taxes as is due for the part of such tax year which falls within the period of Federal control.

At such periods as the President may direct, the books shall be closed and the balance of revenues over disbursements shall be covered into the Treasury of the United States to the credit of the revolving fund created by this Act. If such revenues are insufficient to meet such disbursements, the deficit shall be paid out of such revolving fund in such manner as the President may direct.

SEC. 13. That all pending cases in the courts of the United States affecting railroads or other transportation systems brought under the Act to regulate commerce, approved February fourth, eighteen hundred and eighty-seven, as amended and supplemented, including

the commodities clause, so called, or under the Act to protect trade and commerce against unlawful restraints and monopolies, approved July second, eighteen hundred and ninety, and amendments thereto, shall proceed to final determination as soon as may be, as if the United States had not assumed control of transportation systems; but in any such case the court having jurisdiction may, upon the application of the United States, stay execution of final judgment or decree until such time as it shall deem proper.

SEC. 14. That the Federal control of railroads and transportation systems herein and heretofore provided for shall continue for and during the period of the war and for a reasonable time thereafter, which shall not exceed one year and nine months next following the date of the proclamation by the President of the exchange of ratifications of the treaty of peace: *Provided, however*, That the President may, prior to July first, nineteen hundred and eighteen, relinquish control of all or any part of any railroad or system of transportation, further Federal control of which the President shall deem not needful or desirable; and the President may at any time during the period of Federal control agree with the owners thereof to relinquish all or any part of any railroad or system of transportation. The President may relinquish all railroads and systems of transportation under Federal control at any time he shall deem such action needful or desirable. No right to compensation shall accrue to such owners from and after the date of relinquishment for the property so relinquished.

SEC. 15. That nothing in this Act shall be construed to amend, repeal, impair, or affect the existing laws or powers of the States in relation to taxation or the lawful police regulations of the several States, except wherein such laws, powers, or regulations may affect the transportation of troops, war materials, Government supplies, or the issue of stocks and bonds.

SEC. 16. That this Act is expressly declared to be emergency legislation enacted to meet conditions growing out of war; and nothing herein is to be construed as expressing or prejudicing the future policy of the Federal Government concerning the ownership, control, or regulation of carriers or the method or basis of the capitalization thereof.

Approved, March 21, 1918.

TUESDAY, FEBRUARY 11, 1919.

GENERAL FINANCIAL SITUATION.

STATEMENT OF HON. CARTER GLASS, SECRETARY OF THE TREASURY, ACCOMPANIED BY MR. EUGENE MEYER, JR., OF THE WAR FINANCE CORPORATION.

The CHAIRMAN. Mr. Secretary, there has been submitted to the Congress an estimate of $750,000,000 for the Railroad Administration predicated upon the need of taking care of the situation that developed in 1918 in regard to operation and betterments of some $381,000,000, and predicated upon an expenditure in this calendar year, which is the railroads' fiscal year of 1919, of some three hundred and sixty-eight and odd million dollars more in the way of bet-

terments that it is felt by the Railroad Administration will have to be financed by the Government, the theory of the estimate being, in some measure, that all that can be expected of the railroads to expend this year in the way of refunding of indebtednesses that will become due and of betterments that will need to be made is about $500,000,000; and that, in order to take care of the necessary situation in regard to equipment already ordered and betterments that will have to be made in addition to that, the Government would have to finance some three hundred and sixty-eight and odd million dollars in addition to having funds of $381,000,000 to take care of the situation of 1918. The statement was made that it was not believed the railroads could, under present money conditions and credits, go out into the market and do their own financing to a greater extent than I have indicated; and that, even if they could do it, it would be at the price of disturbance of the market, and the financing of loans to the Government, which from a governmental standpoint, would not now be permissible in view of the fact that the Government itself will be in the market very shortly in connection with an additional loan. The committee felt it would like very much to have your view touching these various phases of the situation as they have been presented in connection with this estimate.

Secretary GLASS. Well, Mr. Chairman, there are two points of view as to the desirability of permitting the railroads to go in the open market right at this time to finance their necessities. One point of view is that the sooner we get back to the normal processes of effecting loans the better it will be for everybody concerned and for the Government. Ordinarily, that would be the sound view; theoretically, it is the sound view. But there are considerations which immediately relate themselves to the necessities of the Government, aside from the requirements of the railroads. While the railroads are doing their financing in the accustomed way, the operations of the Government may be badly disturbed. To begin with, there are a good many railroads that can not finance themselves under present conditions; those failing to finance themselves in the open market would go into the hands of receivers. That very fact would create a state of demoralization and of alarm that would reflect itself in the general business activities and would very seriously interfere with Government financing. It would be somewhat akin to the situation we frequently have in periods of depression when the mere failure of one or two large banking institutions precipitate a distressing situation throughout the country and affects communities and institutions that have no immediate connection with the business of the failed institutions.

Therefore, I say the failure of any number of these railroads to finance themselves—and that would be inevitable—would have an appreciably bad effect upon Government finances. It is true that to the extent the railroads are able to do their own financing through private sources, to that extent the Government would not be compelled to raise funds to help finance the railroads; but as I have indicated, in the process of doing that, they may cripple the Government's financial activities. Then the question of the rate of interest at which the railroads may finance themselves enters into the question. If they have to pay a high rate of interest and commission, to that extent it demoralizes the market for the Government's financial activities and

affects the rate at which the Government may finance itself; and while I appreciate that it is very desirable to get back into the normal ways of financing railroads through private banking institutions, through private credits, it is not desirable to have the railroads at this particular time go into the open markets for a loan aggregating nearly $1,000,000,000. We are making a point to discountenance a great many enterprises seeking private bank credits. Just before I left ny office, I had an interview with a committee of churchmen who want to go in the open market for what they call a centennial drive for several hundred millions of dollars, and the Treasury is very anxious to dissuade efforts of that sort, because of the effect upon Treasury enterprises.

SUBSCRIPTIONS FOR HOME AND FOREIGN MISSIONS.

Mr. GILLETT. Did you say churchmen, Mr. Secretary?

Secretary GLASS. Yes.

Mr. GILLETT. What do the churches want with several hundred million dollars? I never knew they undertook that large a subscription.

Secretary GLASS. I said several hundred million dollars; perhaps the amount was not quite so large. The northern and southern Methodist Churches want to project a united drive or foreign and home mission work of quite large proportions.

Mr. VARE. However, Mr. Secretary, that covers a period of five years, does it not, in connection with the drive of the Methodist Church?

Secretary GLASS. Well, my understanding from my talk with two of the bishops and with this committee was that they want to go right into the field at once. The purpose of their visit to my office was to ascertain when the Liberty loan would be floated, in order, if possible, they might not conflict with it. You know that for the period of the war we interdicted so far as we could loans to foreign Governments, for the reason that they would interfere with the Liberty loan drives. These loans are now being made in a moderate degree. A loan of $50,000,000 to Belgium is in process of the making now.

APPROPRIATION TO THE RAILROAD ADMINISTRATION.

As to this particular suggestion of an appropriation of $750,000,000 to the Railroad Administration, the Treasury Department is very earnestly in favor of that appropriation, because it thinks, as I have indicated, that if the railroads were compelled to go into the open market for that amount of money, nearly $1,000,000,000, it would have a disturbing effect on the next and, I hope, final Liberty loan; and we think that if the appropriation is not made it may have a very distressing and demoralizing effect upon business generally. I assume from my talks with Mr. Hines that it would cripple railroad activities; it would interfere with the Railroad Administration in meeting maturities of 1918 to the extent, I think he told me, of about $200,000,000; it would interfere with it in the matter of meeting its obligations for equipment to the extent, as I recall, of about $286,000,000; it would at once put upon them the necessity of curtailing purchases in the matter of equipment, and that alone, I think, would bring about a rather distressing situation. The Treasury, in conjunction

with other departments, has been undertaking to devise some scheme to stimulate purchases by various Government departments, and, on the other hand, it has been doing all it can to curtail purchases by certain other departments. What I mean is, we have been trying to bring the men who are in charge of the basic industries to believe that they should get on rock-bottom prices now in order that this practical suspension of business—because we do practically have a suspension of business—may be brought to an end, and that the Railroad Administration may buy the necessary equipment; that the telephone and telegraph and cable companies may buy copper and other essential equipment required for the efficient conduct of those services; that the building trades may resume operations; and that essential business may be stimulated rather than kept in a state of uncertainty and suspension; and the Treasury thinks that unless this appropriation of $750,000,000 is made to the Railroad Administration, that movement would be seriously interfered with.

Taking all the circumstances into consideration, I am very definitely of the belief that it would be unfortunate if Congress should not make the appropriation.

The CHAIRMAN. What examination, Mr. Secretary, if any, has been made by the Treasury Department as such, or by any agency of the Government other than the Railroad Administration, to ascertain to what extent the railroads might be able to finance their needs in whole or in part through the normal and ordinary channels of private banking and financing?

Secretary GLASS. There has been no specific examination by the Treasury Department as such. Incidentally, my observation has led me to believe that the better and sounder railroads can finance their current activities without any great difficulty and at a fairly reasonable rate of interest. The Pennsylvania Railroad effected a loan not long ago at 5.20, was it not, Mr. Meyer?

Mr. MEYER. Including all expenses, it was 5.20.

Mr. GILLETT. How large a loan was that?

Secretary GLASS. $50,000,000, which is not very large for the Pennsylvania Railroad. The Southern Railroad recently effected a loan—have they completed that loan of $25,000,000, Mr. Meyer?

Mr. MEYER. I have not heard as to its completion. The road sold outright $12,500,000.

Secretary GLASS. When I left Washington for Pittsburgh last Friday, I was told they had placed the entire loan except, perhaps, about $2,000,000, and that they felt confident of placing the remainder.

Mr. GILLETT. I thought that was exactly what you did not want them to do.

Secretary GLASS. Not to the extent, in one lump, of nearly $1,000,000,000. We want them to do it, Mr. Gillett, as far as it may judiciously be done without interfering with the Liberty-loan drive.

Mr. GILLETT. I supposed that every loan of, say, $20,000,000 would interfere somewhat.

Secretary GLASS. Yes; to some extent. We want them to do it when they can do it at a reasonable rate of interest that will not demoralize the securities market generally, and we thought that 6½ per cent for the Southern Railroad loan was certainly within the definition of the law a reasonable rate for that railroad.

The CHAIRMAN. To what extent are you undertaking to advise with them and indicate a willingness or an unwillingness to have them go into the market?

Secretary GLASS. Well, just to the extent that they are pleased to advise with me, and they do that pretty generally. For example, this Southern Railway loan was brought to my attention, and it being generally understood in railroad circles that their operations have an effect upon the Government's financial activities, they usually advise with me as to whether or not to make a loan and as to the rate of interest, and at times as to the commission charged for floating the loan, and so with foreign governments.

In the matter of this Belgian loan, the committee having it in charge came to Washington and advised with me as to the rate of interest to be charged to the Belgian banks and as to the rate of the commission that the American bankers would exact for floating the loan, and the Treasury Department invariably admonishes these gentlemen to engage in these transactions on as reasonable an interest basis as they possibly can.

The CHAIRMAN. Mr. Hines testified that the Railroad Administration would endeavor to require the railroads to do that financing that they might properly do, particularly in the fall and after the Liberty-loan drive, so as to lessen as much as possible the demand that would rest upon the Government for financing the railroad betterments themselves, and his scheme as outlined contemplates that they can properly be required to finance to the extent of some $500,000,000 during this calendar year, and that that would leave the Government's need to finance them to the extent indicated in connection with the estimate submitted.

Secretary GLASS. The Railroad Administration has been reasonably exacting in its requirements as to railroad financing. Some people would think they have been unreasonably exacting. There has been a rather sharp difference of opinion as to that, the Railroad Administration contending hitherto that any rate over 6 per cent might be defined as an "unreasonable" rate of interest; but I do not think that is exactly true. I think it depends upon the market, and it depends, in a measure, upon the credit of the railroad itself. One railroad might be expected to make a loan under more favorable terms than another; but altogether the Railroad Administration has been decidedly cautious in matters of that sort.

The CHAIRMAN. I do not know that you care to enter the realm of prophecy, Mr. Secretary, but this, perhaps, has a direct bearing on the proposal that is before the committee and the Congress—as to the probability of the railroads in the future, in the next year or two—being able to refinance their needs at a rate of interest less than 6 per cent.

The Railroad Administration is now lending to them at that rate—I say lending; they are making investments in the way of capital investments, rolling stock, and betterments, and those advances to the railroads bear interest at 6 per cent. If we are to have easy money in connection with long-time loans in the near future it would be the natural desire of the railroads to liquidate their indebtedness to the Government by refunding that indebtedness to private agencies at a less rate of interest; if, on the other hand, money should remain dear and worth 6 per cent or better, it would mean, presum-

ably, a longer time that the Government would have to wait for the repayment of these advances that are being made, and if you care to express an opinion, the committee would be glad to have your views touching that matter.

Secretary GLASS. Mr. Chairman, as the committee very well knows, the administration of railroad matters was separated from the Treasury Department when my predecessor resigned, and I have not been giving a great deal of attention to railroad activities. Mr. McAdoo, as you know, was Director General of Railroads as well as Secretary of the Treasury, and he was compelled to look at the problem from both points of view. My own belief is that, if we can terminate this general doubt that pervades the commercial and industrial communities of the country, there will be a resumption of business activity on a most gratifying scale and that there will come to the country itself such a resumption of business, domestic and foreign, as will very largely ease the money market and enable the railroads to resume their relations with private banking institutions on very much better terms than now exist.

The CHAIRMAN. Would not a very pronounced activity, industrial and commercial, have the result of making such demands on private capital as to stiffen, rather than to lower, rates on a long-time loans?

Secretary GLASS. Well, in a sense, that may be true; but a resumption of business would produce a psychological effect that would be altogether wholesome; it would restore confidence, and in circumstances of that sort the money market is more active and more readily responsive to credit requirements than in depressing circumstances.

The CHAIRMAN. In other words, capital that might now be timid and in hiding would come out into active use, with the result of more than offsetting the demands for money and ease the market.

Secretary GLASS. It seems so to me. But prophecies are not altogether profitable, and I am not much of a prophet, especially with reference to the railroad problem.

The CHAIRMAN. If I understand your position, broadly stated at this time, it is this: That with the inevitable reaction that flows from a change from war to peace and readjustment and the temporary letting down that follows when a nation gets out of a position where it has been keyed up, incident to the war, that if there was thrown upon the private market now the burden of taking care of capital investments that are necessary in order to enable the roads to go forward and perform the functions for which they were created, it would result in further unsettling that market and make more difficult the Government's financing of its own needs and that that result is great enough to outweigh the very natural and proper reluctance that the Government might have of making further loans and advances to the railroads.

Secretary GLASS. It seems so to me. And, furthermore, as I have indicated, some of these railroads at this time can not finance themselves at any rate of interest, and others would have to pay an abnormal rate of interest, and to the extent that they had to do that it would demoralize the securities markets of the country and this would reflect itself in an unwholesome way upon the Treasury's activities.

The CHAIRMAN. If the railroads' inability to market their needs is due simply to a passing condition, which applies not only to them

but applies generally, it might indicate that the advances which we have made to them would have a doubtful value as to repayment to the Government.

Secretary GLASS. Yes; but their difficulties are largely due to existing circumstances.

The CHAIRMAN. And not fundamental.

Secretary GLASS. And not fundamental.

Mr. GILLETT. Of course everybody who can not raise money would like to have the Government loan it to them. How would you distinguish between the railroads and the ordinary corporation that wants money? Why should the Government lend to one rather than to the other?

Secretary GLASS. Because the Government has undertaken administration of the railroads, and I think the obligation upon the Government is to deal with this condition that confronts the railroads. It has not taken over private enterprises generally.

Mr. GILLETT. Are not the railroads really more important than anything else?

Secretary GLASS. Very much more so, I think.

Mr. GILLETT. That is, more important to business prosperity.

Secretary GLASS. The railroads are the biggest employers of labor in the world.

The CHAIRMAN. As I understand the position as presented by Mr. Hines in connection with the questions that have been asked, it resolved itself into this: The Government has taken over the railroads and has agreed to make certain payments in the way of rentals, and not to make those payments would result in the necessary default in interest charges and, in the case of those railroads that heretofore have been paying dividends during the period that was used as a basis for determining rentals, would result in their being unable to pay such dividends, with the corresponding further weakening of their credit in the market and, in many instances, the actual receivership of the roads; that in taking over the railroads the Government was obligated not simply to pay the rentals, but it was obligated to operate those railroads in the interest of the public; and in operating those railroads it is necessary that certain betterments be made, and in default of the railroads' ability to make them it is incumbent upon the Government to make then or have the demoralization that would follow from having the railroads unable to carry on the functions for which they were created.

Secretary GLASS. That very clearly states the case; in fact, as far as I have seen, Mr. Hines himself has well stated the case to the committee, and I very definitely concur with his view, that it would help the credit of the railroads infinitely to have this appropriation made, and I am perfectly well satisfied that it would very materially interfere with Treasury arrangements not to have it made. It would certainly have a very bad effect on the next Liberty loan which, as you gentlemen must know, is going to be a very much more difficult enterprise than any Liberty loan we have ever had. We are no longer in the delirium of war and the enthusiasm and excitement of combat have abated, and people all over the country are in a reactionary state of mind. Everywhere I am confronted with the expressed judgment that the next loan will have to be put upon a cold-

blooded business basis; that you can no longer appeal to the patriotism of the American people. I am trying to combat that feeling as well as I can.

I spoke on Saturday night before more than one thousand of the representative business men of Pittsburgh and was very much gratified by the response of those men to the suggestion that we might appeal further to the patriotism of the American people, and especially to the American business men and banking circles. I found them very responsive to the suggestion. Nevertheless, the next Liberty loan is going to be very much more difficult than any we have had and everything possible should be done to accelerate and facilitate it.

The CHAIRMAN. Has the Treasury come to a determination as to the time in which the next loan will be undertaken and as to the conditions surrounding it?

Secretary GLASS. No; it has not. We hope to reach some conclusion about that this week. It had been thought that the next drive would begin on the 6th of April, which is the second anniversary of the entrance of the United States into the war. That had a sentimental significance; but we have had so many protests from church people of various denominations, particularly from Catholics and also from Jewish churches, that it is very likely we shall have to defer the loan until the latter part of April. The Jewish holidays come on and the Lenten season begins, and we think, perhaps, we shall have to defer the loan.

The CHAIRMAN. You are not prepared, then, to advise the committee as to the extent of the loan that will be requested or be sought or the time in which it will be undertaken?

Secretary GLASS. Not at this moment.

The CHAIRMAN. Mr. Secretary, there was created, in connection with the needs of the Government growing out of the war, a War Finance Corporation for the purpose of having some controlling influence in connection with the financing of necessary enterprises during the war period. It is still functioning in connection with similar matters since the armistice.

Secretary GLASS. Yes.

The CHAIRMAN. Has it undertaken to act in connection with matters growing up in regard to railroad financing?

Secretary GLASS. Frequently. And supposing that the committee, perhaps, might want to know something of its activities, I took the liberty of bringing Mr. Mayer up with me. He is the managing director of the War Finance Corporation and will be glad to give the committee any information it may desire.

The CHAIRMAN. We shall be glad to hear from him in a few moments.

Mr. CANNON. There are so many agencies that might give relief, so many people who have it, and so many who do not have it, that I do not know but what I may ask foolish questions. I want to be educated a little bit. I suppose I am hardly the average Member of Congress; I think I have the minimum capacity, but there are two or three things that will show my ignorance. Could you prevent the railroads from entering the market if you tried to?

Secretary GLASS. I could not; no.

Mr. CANNON. Take the whole machinery. Of course, the stronger roads could put a loan on the market at some price, but that would be demoralizing, so far as the Liberty loan is concerned; but is there any power anywhere that could keep them from doing it?

Secretary GLASS. I think if the Treasury Department should make it known that it discountenanced the proposed loan, and if the Railroad Administration, in conjunction with the Treasury Department, were to do the same thing, it would make it very difficult for the railroads to effect such a loan.

Mr. CANNON. Without regard to whether you have the legal power to prevent them from putting on a loan, is there anywhere in the Government legal power to prevent these roads from doing it, under the existing conditions of the Government having taken them over?

Secretary GLASS. Well, I can not say, Mr. Cannon, whether the text of the Railroad Administration Act confers arbitrary and conclusive powers in matters of that sort; but I do know that both the railroads and the banking institutions have shown a disposition to cooperate with the Treasury, and that in the little while I have been there all of their financial activities have been brought to the attention of the Treasury, and they have advised me as to these things.

Mr. CANNON. That is speaking from a practical standpoint?

Secretary GLASS. Yes, sir.

Mr. CANNON. Surveying the whole field and without regard to any legal power in the premises?

Mr. GLASS. Yes.

Mr. CANNON. Something has been said as to guaranteeing the payment of dividends, going back to the three-year period before they were taken over. I do not know whether it is legal or not for the roads to pay those dividends, but, having been taken over——

Secretary GLASS (interposing). There is a moral obligation.

Mr. CANNON. Well, there is a moral obligation; yes; but I suppose there is no legal authority to enforce the legal obligation, and it would, perhaps, be destructive to the railroads on the one hand and to business on the other all along the line to refuse, if we have this moral obligation, to shoulder the load. Now, I would like to know from somebody—I simply do not know and never have been much of a lawyer—whether, if these railroads fail to meet their fixed charges, a receivership can be enforced while the Government has possession of the railroads?

Secretary GLASS. Well, Mr. Cannon, I am not a lawyer either; I am a newspaper publisher, and I must confess to a lack of familiarity with the details of the statute under which the Railroad Administration is operating.

ACTIVITIES OF WAR FINANCE CORPORATION—CAPITAL ISSUES COMMITTEE.

The CHAIRMAN. Mr. Meyer, you are one of the directors of the War Finance Corporation?

Mr. MEYER. Yes, sir.

The CHAIRMAN. That was a corporation which was created under the act of Congress which, as I recall, gave it $500,000,000 as its capital stock, to be subscribed by the United States, and authorized it to issue bonds not exceeding six times the amount of its capital stock?

Mr. MEYER. Yes.

The CHAIRMAN. And in a broad way, it was the function of that corporation to make loans to and finance such firms or corporations and associations as in its judgment, subject to certain prescribed limitations, it might be desirable to help finance in connection with the carrying on of the necessary activities incident to the war?

Mr. MEYER. Yes.

The CHAIRMAN. There was also created at the same time what is known as the Capital Issues Committee, which was a committee with the duty, as found in section 203 of the act, to investigate, pass upon, and determine whether it is compatible with the national interest that there should be sold or offered for sale or for subscription any issue or any part of any issue of securities hereafter issued by any person, firm, corporation, or association, the total or aggregate par value or face value of which issue and any other securities issued by the same person, firm, corporation, or association since the passage of this act is in excess of $100,000. Presumably, these two governmental agencies have acted together, or in cooperation, performing their respective duties?

Mr. MEYER. The Capital Issues Committee, Mr. Chairman, since January 1 has been practically suspended. During the period of their operation we both worked under the Treasury in carrying out, broadly speaking, the Treasury policy. I think everything was done in cooperation, in the sense that it was not in conflict and that it was all in harmony, with the Treasury's policies; but there was not a close-working association, because the functions are obviously entirely different.

The CHAIRMAN. But, manifestly, the War Finance Corporation would not undertake to aid financially any firm or association that the Capital Issues Committee might not approve.

Mr. MEYER. That is correct, Mr. Chairman.

The CHAIRMAN. Now, can you tell us briefly just what the War Finance Corporation has done in a general way, and then we will later come to the relationship it has borne to railroad financing as such?

Mr. MEYER. With the organization of the corporation a number of industries applied to us for financial assistance. Predominant, however, were public-utility corporations, by which I mean not the railroads, but the street railways and public-service corporations in the local service. We also had a number of industrial applications. We had very few applications, on the whole, through banks, bankers, or trust companies which, in accordance with the terms of the act as passed, obviously were expected to be the large borrowers. Under the act only one-eighth of the total amount available for lending is available for lending directly to industries. Seven-eighths was intended by the terms of the act to be lent to banks, bankers, and trust companies that had financed enterprises "necessary of contributory to the war." The banks objected to coming in and doing the borrowing for the enterprises on the ground that they were obliged to become the indorsers of the loan, and that it was contrary to good banking practice to do that.

Mr. GILLETT. Do you mean that you required them or the law required them?

Mr. MEYER. The law required them. The loan is made to the bank in case it has made an advance to an industry necessary or contributory to the war.

The CHAIRMAN. In other words, they insisted that where it was necessary for a private corporation to get financial aid through governmental agencies, it should come direct instead of coming first to them, tying up their funds and then forcing them to come to this War Finance Corporation with the result of the banks being practically indorsers of the loan.

Mr. MEYER. Yes; and not only indorsers, according to the terms of the act, but in addition to whatever security the borrower might give the bank, the bank in accordance with the terms of the act has to put up 33⅓ per cent margin of its own resources or resources to be found somewhere, in addition to the margin put up or the security put up by the borrower. The result was that the banks came to us very, very little. The total amount of loans to banks or bankers did not exceed $3,000,000 to $5,000,000, and it never became operative in the large way that was contemplated, apparently, when the act was passed. It nevertheless had an emergency value.

The fact it did not become operative does not alter the fact, gentlemen, that it was a very valuable thing to have as an emergency measure because under certain conditions and with the continuance of the war, difficult and complex though the operation of that section 7 of the act may have been, it might have been very necessary. Under section 8 we were allowed to lend to savings banks and building and loan associations. We receive hardly any applications at all from these institutions. None at all from building and loan associations, and very little from savings banks. Under section 8 we would be allowed to lend "in the public interest": not only "necessary and contributory to the war," but merely in the public interest, and the board had a meeting only a few days ago with certain representatives of the building and loan associations and of the Department of Labor to see whether or not in the public interest we could do any financing at this time that would restore the building industry. They have not come to a decision as to whether it is practicable. I think the rate of interest, which is the minimum that we must charge under the law, precludes the possibility of our extending any aid to the building and loan associations on terms that would make it helpful in a practical way.

The CHAIRMAN. That rate of interest is——

Mr. MEYER (interposing). Five and three-quarters per cent minimum under the present discount rates of the Federal reserve banks.

The CHAIRMAN. By the terms of the law it is made 1 per cent in excess of the rate of discount under the Federal reserve act.

Mr. MEYER. That is correct, Mr. Chairman. Under section 9 we received a considerable volume of applications.

Mr. GILLETT. What does that section provide?

Mr. MEYER. That is the section for direct loans to industries, the public utilities being by far the largest in number and in total amount of the applicants. We made a number of loans to help out what seemed to be important situations, where the conditions involved might be considered properly "necessary and contributory to the war" in order to keep them going in a proper way, and some

of these have been repaid, some have been repaid in part, some have not been repaid yet, some are not due yet.

I think that the War Finance Corporation's aid was valuable not only for the money we furnished but for the money, the furnishing of which we facilitated. In fact, a good many of our loans were made on the condition that bankers would help to a certain extent or that the company should secure a certain amount of additional financing elsewhere. In certain cases where we helped the public utilities in connection with an important maturing obligation, which they were unable to handle without our aid, we gave it on condition that the holders of maturing obligations should extend to a certain extent or in a certain proportion. I think we were able to aid the whole situation far beyond the figures of the actual money which we lent. The mere fact that there was a place where some money might be had was helpful in easing many a difficult situation.

The CHAIRMAN. Did you state the extent of those loans?

Mr. MEYER. I have not the figures with me, but I think the loans made outside of railroad loans may have reached in the neighborhood of $100,000,000; that is, loans or agreements to lend which in certain cases were immediately liquidated. For instance, at the request of the War Department and the War Industries Board, we undertook and contracted to make an advance to the Bethlehem Steel Corporation for a plant in Maryland that had to be built for Government purposes. Bankers were financing part of the operation which had to a large operation in order to pay off certain advances which restricted their ability to issue bonds. They had to raise at that time $50,000,000, and trust companies or bankers agreed to furnish $30,000,000, and we agreed under certain conditions to furnish $20,000,000 and contracted to do it. Subsequently the banker sold the notes of the company for the entire $50,000,000 and we were not called upon to pay the money. In that way I think that, in addition to the amount which we lent or contracted to lend, there was well over $100,000,000 which was furnished by our making it a condition that when we lent, say, 30 per cent of the amount required they should obtain through existing bondholders or note holders or bankers 70 per cent.

So in addition to the amount we lent we caused to be lent a great deal of money. As a matter of fact, certain industries were helped without our lending any money, merely by our moral influence. The beet-sugar industry in Utah, Colorado, and California needed several million dollars, and Governor Harding, who was then managing director at the time, happened to be in the West. We telegraphed him to see the Federal reserve banks and the local bankers, and as managing director of the War Finance Corporation he procured all the necessary funds for the beet-sugar industry without making any advance—simply by our lending our good offices to the obtaining of the funds in a helpful way. We lent the Grain Corporation at one time $25,000,000 temporarily, which was repaid. We lent a number of smaller loans to agricultural movements, cotton and other farm products, as authorized. We lent quite a little money under the special emergency conditions caused by the drought in Texas to the cattle industry, some of which has been repaid, but most of which contemplates repayment about the fall of next year.

That was really to preserve the breeding herds which were endangered and where the financial strain was considerable. That amounts to about $10,000,000 as a total, I think. It was lent under agencies created for the purpose in Dallas and in Kansas City. Dallas lent the most, and the agency is under the supervision of the Federal reserve bank in the district. We lent $17,000,000 out of a total requirement of $58,000,000, I think, to the Brooklyn Rapid Transit Co. in New York, which was for a maturity which came due on July 1, 1918, and which was the first big and difficult situation that we were confronted with. We subsequently lent, just before the last liberty loan, $12,500,000 to the Interborough Railroad there. The railroads did not apply to us for any help——

Mr. GILLETT (interposing). Before you take up the railroads, may I ask how much of this amount of $100,000,000 which you say has been loaned has been repaid? Can you give us that roughly?

Mr. MEYER. Out of those loans amounting to $100,000,000, excluding the railroad lines, I should think perhaps in the neighborhood of a little more or less than half; rather more, I think, has been repaid.

The CHAIRMAN. These loans, of course, were all made bearing interest and were all presumably secured so as to bring their repayment at maturity?

Mr. MEYER. According to our best judgment at the time.

The CHAIRMAN. Assuming that the principal of your loans is paid, will there result a financial profit to the Government as a result of this financing?

Mr. MEYER. If all our loans are paid we will have a profit, because the capital stock does not compel us to pay any interest or dividends, and everything we receive over and above our operating expenses you may either consider an interest return on the capital investment of the Government or you may consider it a profit. Of course, the Government pays 4¼ per cent for the money which it subscribes to our capital stock. I would like to say that we have taken a total capital stock of $350,000,000 and the balance of our money has been used to buy liberty bonds in the bond market, keeping a constant current of purchases, a little every day, and then part of our purchases go to the Treasury for their bond purchase fund.

Mr. GILLETT. Do you both buy and sell bonds, or only buy them?

Mr. MEYER. We do sell some bonds. Our principal sales are to the Secretary of the Treasury for the bond purchase fund.

Mr. GILLETT. You do not sell on the market at all?

Mr. MEYER. Very little. We have sold some bonds to the postal savings account. We have sold perhaps about $25,000,000 for that, but I am not quite sure of the figures. We have sold some bonds to the Alien Property Custodian to use funds which he happened to have; but not a very large total.

Mr. GILLETT. Do you sell them at the same price you pay for them?

Mr. MEYER. We do not sell them for the purpose of making a profit. We sold them to the post-office at the price of the day that the transaction was arranged. We sell to the Secretary of the Treasury for the bond purchase fund practically at the average that the bonds cost us.

The CHAIRMAN. I take it that your dealings in bonds of the Government are simply an idea of stabilizing.

Mr. MEYER. That is all.

The CHAIRMAN. And where there happens to be put on the market bonds in such quantity as, in the absence of some sustaining influence, would tend to break the market value, you go into the market and buy enough bonds to steady the situation?

Mr. MEYER. That is correct.

Mr. GILLETT. How much have you ever had to buy in one day?

Mr. MEYER. I bought one day in December when, as you may remember, there was a great liquidation of Government bonds on account of the end of the year, not quite $9,000,000. That was when the sales were unusually heavy.

There is now a considerable pressure of bonds coming from holders which, I think, is due to the fact that with the ending of the war many companies need more working capital than they did during the war, because there was an immediate sale for many materials for war purposes which have to be carried under present conditions for a longer period by the companies or industries. Then in addition to that, as you know, a very large amount of bonds in the aggregate were sold to the labor employed in war industries and factories. There is a movement of labor and, as it moves from one place to another and as there is some unemployment, men are very apt to sell their $50 or $100 Liberty bonds, and that produces a considerable liquidation in the aggregate.

RAILROAD LOANS.

In September the matter of the railroad loans was called to our attention and we passed a general resolution undertaking to help the railroads. Subsequently a number of the roads applied to us for assistance, and I think we have lent about $70,000,000 to the railroads.

Some of that money was used to repay advances which they had obtained from the Railroad Administration; some of it was used to meet the current corporate needs; in some cases it was to meet maturing obligations. In some cases we agreed to lend, but suggested that the roads secure extensions and get their bankers' help to secure those extensions. The Baltimore & Ohio, I think, last week asked for $14,750,000; we agreed to take the loan, but we suggested tnat they ask the holders of those obligations to extend to the extent of $14,000,000, which was maturing, and, if they could, sell the notes to the extent of $750,000, which they needed for new money. We told them we would be well pleased if they could do it elsewhere at 6 per cent, and they succeeded in getting all of the money.

The CHAIRMAN. You are limited by law to loans of what length?

Mr. MEYER. Not over five years. But almost all of our railroad loans are in the shape of demand loans. Before we make a loan to a railroad we ask that they secure the approval of the Director General of Railroads. You were asking whether a railroad could borrow if it felt like it, without any regard to Government control. The War Finance Corporation would not lend to a railroad without securing the specific and expressed approval of the Director General of Railroads; and I do not think any banker would lend to them or buy securities from them without that approval.

The CHAIRMAN. So, for practical purposes, you are able to control the action of the railroads in seeking loans?

Mr. MEYER. We are not, but the director general is able to control action in that regard.

The CHAIRMAN. I mean, the Government is practically able to prevent the floating of a loan on terms which, in the judgment of the director general, would be disadvantageous and which he might not approve.

Mr. MEYER. Yes, sir.

The CHAIRMAN. To what extent do you gentlemen contemplate helping the roads in their financing? Has there been any general survey of the needs of the railroads in connection with the view that the Director General of Railroads has indicated as to the extent they will need to finance and the extent to which the Government will need to aid directly through advances?

Mr. MEYER. I think that if this appropriation is passed the railroads will be in a better position to do without the money than they will if it is not passed. This appropriation will restore cedit to the railroads. It is well known among investors and bankers who represent investors that the Railroad Administration faces a difficulty in carrying out its contracts with the railroads, owing to the lack of an appropriation of this character. The credit of the securities of the railroads is impaired by knowledge of that condition. As soon as you put the railroads in better credit investors will be more willing to buy the securities. In other words, the ability to get the money from the Government will make it easier to get the money from the investors, and that is a very important factor, not only as to the quantity of money that the railroads may call for from the Government, but also the rate of interest which the money will cost the railroads.

The CHAIRMAN. I quite appreciate that, but the point I was getting at is this: That a financial program has been presented to the committee in connection with this estimate, and on the assumption that the appropriation is made it is estimated that the railroads will be able to finance independently about $500,000,000 worth of their needs, and that, with what the Government will do in the way of direct advances for betterments, would take care of the probable needs of the railroads in refunding existing liabilities and in making those improvements, in the way of capital investments, which are essential to the maintenance of the roads as going and efficient concerns. Now, my inquiry was directed to how far you gentlemen had canvassed the situation so as to either approve or disapprove, in whole or in part, the position taken by the Director General of Railroads as to what was necessary and what could be done by the railroads, and to what extent financing on their part to the extent of $500,000,000 involved aid from the War Finance Corporation?

Mr. MEYER. We of the War Finance Corporation have not made a survey of that character, and it would be a very difficult survey to make, because it contemplates a consideration of financial conditions lasting over an entire year, for which it would be impossible to make any exact calculation in advance.

The CHAIRMAN. We appreciate that, but it is a survey that we either have to assume, on the basis on which it is presented, or our-

selves come to some judgment in connection with the proposal that is presented to the Congress.

Mr. MEYER. I think that Mr. Hines is best qualified to pass on the point as to whether or not it will be possible to finance $500,000,000 worth of railroad securities in the open market. I would say that it would depend a great deal on the passing of this appropriation, which will give confidence to the open market to take $500,000,000 worth of railroad investments.

Mr. SISSON. You do not imagine that if this bill passes there will be any special effort on the part of the railroads to finance themselves, as long as they can get money here at this rate, 6 per cent?

Mr. MEYER. I do. I think the railroads, in many cases, prefer to finance themselves when they can.

The CHAIRMAN. There is another proposition that comes in there. Even if this $750,000,000 is voted, it is not going to be enough to take care of the necessary financing that must be done.

Mr. MEYER. Nor does it give any railroad any right to any particular advances.

The CHAIRMAN. The point I wanted to develop is this: Your judgment as to whether, assuming the appropriation was made, the railroads could finance to the extent of $500,000,000, or even if any less sum were appropriated, they could finance to that extent, or to a greater extent, so as to deal with the situation.

Mr. MEYER. It is a very difficult situation to judge in advance. The operation of the railroads is being carried on under a temporary arrangement. The credit of the railroads is dependent on not only getting an appropriation which will permit the Railroad Administration to carry out its contracts but also a final determination of the status of the railroads. The outcome of the railroad situation as a whole, entirely apart from money to lend, is going to be a factor in the credit and what you might expect on one basis to-day, while the thing is indeterminate, might be very much improved or very much damaged by the developments of the future relations of the railroads and of the Government and of the people and of the local powers that control railroads when the United States Government does not control. Everything is in the future.

However, I think that under present conditions, a fair amount of money can be had from the market by the better railroads, provided the Railroad Administration is put in a position to live up to its contracts. You must bear in mind also that the traffic conditions of the railroads have been very considerably changed through Government operation, and that some roads are handling more traffic than they used to handle and other railroads are handling less. The Government is making a profit under its contract with some railroads and making a loss in others. Returned to their former methods of management, under certain conditions, some railroads would make greater earnings than they make now (apart from the fact that the Government guarantees a certain contract) and other roads would make less. The whole situation, from every point of view, is in such a changing stage that it is very difficult to predict for any great period in advance, because a change in any one of these items would be an important factor in the outcome. But I think Mr. Hines roughly estimates that a very considerable part of the total requirements may be had, other things being equal, in the investment market.

The CHAIRMAN. I think we appreciate somewhat the factors—which are variable—that enter into the equation and which make absolutely impossible any demonstrable conclusion.

Mr. MEYER. I would like to make clear that the War Finance Corporation enters into these situations only when it receives an application from a railroad; it has no general control over a railroad's finances and it has no special function except to lend money when an application is made, if it is in accordance with the terms of the act. We confer informally with the Railroad Administration over the general situation, however.

The CHAIRMAN. What I was trying to get at was how far the War Finance Corporation had undertaken to consider the matter, even with all these varying factors, and had come to a judgment as to what might be expected in the way of private financing by the railroads and to what extent the War Finance Corporation contemplated entering into the field of helping in the way of financing.

Mr. MEYER. We have no definite program or expectation, because it depends on conditions which have to be determined in the future, and it depends on the attitude of Congress in this appropriation. We passed a resolution that we would extend aid, in proper cases, up to $100,000,000. That would leave, so far as that resolution is concerned, only $30,000,000.

Mr. GILLETT. That was to railroads.

Mr. MEYER. To the railroads; yes. That was merely an expression of our attitude before we had concrete cases. We would be limited, of course, to a total of something less than the amount authorized, because we have loaned to others. Under the act the limit is $437,500,000 on direct loans under section 9, so that would be the maximum less any loans we have already made.

Mr. GILLETT. You mean you have that much capital still left?

Mr. MEYER. No; we have $150,000,000 of unsubscribed capital which we could take out.

Mr. GILLETT. You have used up $350,000,000, you mean?

Mr. MEYER. In connection with our loans, Government bonds, and cash on hand. But we can sell bonds to the Treasury and get cash out of such sale of bonds to the Treasury. We can also issue our own bonds if we deem it wise, so that we have some resources. But, frankly, I hope that the appropriation and the additional credit which the appropriation will give to the railroads will permit a restoration of credit to the properties, so that the Railroad Administration and the bankers will be able to provide most, if not all, of the needed money.

The CHAIRMAN. It is right at that point that I want to get your opinion. Assuming that the appropriation should be made, do you think the opinion expressed by the director general—having in mind that it is necessarily subject to varying conditions—is warranted: that the railroads themselves can be expected to finance about $500,000,000 through private sources during this fiscal year?

Mr. MEYER. I think Mr. Hines is warranted in expressing that opinion, subject, of course, to the changing conditions.

The CHAIRMAN. One other question in connection with what you said prior to your last answer. The War Finance Corporation is authorized to issue its bonds to the extent of six times its capital. In point of fact, has it issued any bonds?

Mr. MEYER. No bonds have been issued at all.

The CHAIRMAN. Does it contemplate issuing any?

Mr. MEYER. We have had the matter up for discussion with the Secretary, and it is not impossible that we shall issue bonds, but we think that at this time, with the Liberty loan impending, it would be unwise to do it. As our operations in Government bonds in support of the bond market may be necessarily increased, and as it is the Treasury policy to purchase more largely than the sinking fund would permit—that is, the bond purchase fund or the Treasury—it might be in the public interest for us to issue our own short-term bonds and buy long-term bonds and support the market. That is a possible future use to which our own bonds might be put, which would be of advantage to the whole situation; but that, again, is in the future. We now have $150,000,000 unissued stock, which is one resource that we can use before we issue bonds, or afterwards if we prefer. I am personally in favor of issuing bonds for the corporation if we need any more capital or any more money rather than to use the $150,000,000 of unissued stock, for the reason that a corporation selling bonds and having unused resources sells them to greater advantage than if it has used all of its resources and needs more money and it becomes obvious that the bond issue is the only way to get it. Therefore, I personally would favor issuing our bonds, holding the unused resources for the advantage it would be in getting a better rate and in making a better sale.

The CHAIRMAN. Does the act restrict you as to the terms of the bonds you may issue?

Mr. MEYER. We are limited, I think, to not less than one year and not over five years, and the rate of interest, I think, is not over 6 per cent. They may not be sold for less than par. There are certain tax exemptions which are given to buyers which are in accord with the provisions of the second liberty loan; a $5,000 tax exemption complete and then the normal tax exemptions.

Mr. GILLETT. Would there be any harm in stating how many Government bonds you have on hand now?

Mr. MEYER. No, sir; we have about $240,000,000 of all issues—six different issues.

Mr. GILLETT. And you have sold a good many to the Treasury, too.

Mr. MEYER. Oh, yes. I think we have sold in all something over $300,000,000 bonds since the beginning to the Treasury, to the Post Office, and to the Alien Property Custodian.

Mr. GILLETT. That means you have bought over $500,000,000.

Mr. MEYER. We have bought almost $550,000,000 worth of bonds in all.

Financial statement for the year 1918.

Requirements for 1918:			
Standard return			$928, 314, 372
Additions and betterments			573, 334, 119
Advances to inland waterways			4, 361, 486
Loan to New York, New Haven & Hartford			51, 475, 000
Total			1, 557, 484, 977
Resources:			
Income from operation		$732, 314, 372	
Deduct working capital as follows—			
Cash	$247, 100, 000		
Agents' and conductors' balances	154, 000, 000		
Credit for material and supplies	100, 000, 000		
	501, 100, 000		
Less outstanding current liabilities	162, 047, 865		
		339, 052, 135	
			393, 262, 237
Income of companies applicable to additions and betterments			214, 211, 190
Open account due companies, applicable to additions and betterments			68, 204, 646
Revolving fund			500, 000, 000
Appropriation required			381, 806, 904
Total			1, 557, 484, 977
Net requirements:			
Additions and betterments			290, 918, 283
Working capital			339, 052, 135
Advances to inland waterways			4, 361, 486
Loan to New York, New Haven & Hartford			51, 475, 000
Operating deficit			196, 000, 000
Total			881, 806, 904
Appropriations:			
Revolving fund			500, 000, 000
Additional appropriation requested			381, 806, 904
Total			881, 806, 904

Estimate of financial requirements for the year 1919.

Requirements.	Estimated expenditures.	Estimated amount which must be appropriated.
1. Expenditures contemplated on inland waterways	$12, 840, 000	$12, 840, 000
2. Financing Boston-Maine reorganization	20, 000, 000	20, 000, 000
3. Financing equipment ordered in 1918 and to be delivered in 1919	286, 000, 000	286, 000, 000
4. Financing other necessary capital expenditures for additions and betterments, including equipment	491, 000, 000	49, 353, 096
	809, 840, 000	368, 193, 096

SUMMARY FOR 1918 AND 1919.

Original appropriation	$500, 000, 000
Additional requirement for 1918	381, 806, 904
Requirement for 1919	368, 193, 096
Total	1, 250, 000, 000

Decision of Director General on Certain Questions Relating to the Standard Form of Contract.

United States Railroad Administration,
Washington, September 5, 1918.

A number of questions involved in the negotiations for a standard form of contract have been submitted for my personal decision by counsel representing the railroads, and also counsel for the National Association of Owners of Railroad Securities. I have given careful consideration to the oral printed arguments made in support of these contentions.

(1) It is insisted that section 1 of the contract should be amended so as to give an appeal from the Interstate Commerce Commission to the Court of Claims as to all of the matters which by the terms of the contract are referred to the commission for decision. There are a number of matters purely administrative as to which an appeal ought not to be considered and as to which the contention of counsel can not be sustained.

It is provided in the Federal control act (sec. 6) that any loss claimed by reason of additions, betterments, or road extensions, or constructed pursuant to said section, may be determined by agreement between the President and such carrier failing such agreement, the amount of such loss shall be ascertained as provided in section 3 hereof.

As to all such matters, the contention of counsel is sustained, and provision will be made in the contract providing for an appeal to the Court of Claims. As to the other matters in the contract referred to the Interstate Commerce Commission for decision, the contention is disallowed.

(2) The contract as drawn, provided that each carrier should turn over to the Director General a working capital which had been tentatively agreed upon as representing the expenses of the carrier for one month without interest. It was insisted that this provision should be stricken out; and that no working capital as such should be insisted upon, and that such balances as came over to the Railroad Administration from any carrier should bear interest at the average rate received by the company during the year 1917, or its daily cash balances in bank.

There is great force in the contention that the carriers should provide a working capital; but I have decided to waive this, and sustain the contention of counsel, and the contract has been directed changed accordingly.

(3) *The acceptance clause.*—Counsel have insisted, especially the counsel representing the Association of Security Holders, that the acceptance clause of the contract whereby it required that all loss and damages to the business or traffic by reason of the diversion thereof or otherwise which has been or may be caused by the taking over or the possession, use, control, or operation of the carriers, was unjust to the carriers, and should be stricken out; that the carriers should have the right, now or at the end of Federal control—

(a) To sue for the loss of good will, loss of business, diversion of traffic, or loss of corporate organization; or

(b) That if the road should not be returned to the carriers as now contemplated by the Federal control act, the effect of the acceptance clause as now written would be to deprive the carriers of the right to claim damages by reason of said items.

This presents the question as to whether the compensation provided to be paid by the Federal control act is intended to be inclusive and exclusive. By the terms of the act of 1916, the President was authorized to take over the railroads for war purposes, to use the same as a unified system of transportation, to divert traffic, and to make such use of the railroads as the war situation required.

The Federal control act not only contemplates the same use, but definitely contemplates a unified control and use of the railroads as one great system of transportation. There can, in my judgment, be no doubt but that the methods provided in said act for compensation; that is, by agreement if an agreement can be made, if not by the decision of the Court of Claims—was intended to embrace all of the damage which the owners have a right to claim. This was the view of the general counsel of the Railroad Administration and of all of my advisers; but the question was pressed upon me so strenuously that it seemed wise to refer it to the Attorney General for an opinion, and an opinion was received, written by the Solicitor General as follows:

"The contention made by counsel for the security holders as to paragraph (a) section 3 should be rejected. They are not entitled to have the contract so framed as to leave them after the acceptance of the agreed compensation with a right of action for further damages based upon the loss of good-will and the division or diversion of traffic.

"Unquestionably the just compensation which the statute provides, is intended to cover these as well as all other elements of loss and damage."

The contention, therefore, must be rejected.

(4) It was also contended that the Director General should pay to the carriers a sufficient sum from operating expenses during Federal control to pay the corporate expenses of the carriers. I gave careful consideration to this subject some months ago and reached the conclusion to which I still adhere that this contention is unsound and must be rejected.

(5) It was insisted that paragraph (*b*) of section 5 should be stricken out. This provides that the Director General may expend and charge to the carriers a sufficient sum to make such deferred maintenance as may be necessary to make the operation of the carrier safe, assuming a use of the road similar to the use during the test period. and not substantially enhancing the cost of maintenance over the normal standard of maintenance of railroads of like character and business during said period.

It does not seem to me open to dispute that the power to make deferred maintenance is a necessary power,, and is one which the statute contemplates may be exercised; and the contention should, therefore, be rejected.

(6) It was contended that section 7, providing for compensation, should be so amended that the power to deduct from the amount of compensation provided in the contract to be paid the carrier should not be exercised for deferred maintenance, additions, and betterments, or road extensions.

I have given very careful consideration to the arguments and have decided to provide in the contract that the power of deduction will not be exercised so as to prevent the payment of interest where interest was regularly paid during the three-year period, or to provide sum sufficient to support the corporate organization, to keep up the sinking funds of the carriers required by contracts in force December 31, 1917, to pay taxes and other sums necessary for the payment of rents for leased, operated, or controlled roads; nor shall such deduction be made in respect of additions and betterments which are for war purposes and not for the normal development of the company; nor in respect of road extensions.

This substantially grants the contention of the carriers and the security holders, except to the extent that they request that such power of deduction be not insisted upon when its exercise would interfere with the payment of dividends regularly paid during the three-year period. I must deny this portion of the request, because if I should accede to it the result would be that railroad companies would be permitted to pay improvident dividends when the funds so used ought to be employed in taking care of deferred maintenance and in payment of their just debts to the Government. This ruling need not operate to embarrass any company which has paid dividends on a provident basis and has retained, and does retain, as it is recognized all well-regulated companies should retain, a substantial surplus of its income to provide a margin of credit and cover unproductive improvements. In every such case the company will be in position to provide for deferred maintenance, if any, and to make reasonable provision for reimbursing the Government and there need be no interference with the company's dividends as regularly paid during the test period.

(7) It was also insisted that in determining the amount to be added to the compensation of the carriers upon the cost of any additions and betterments less retirements provided for by section 4 of the Federal control act, the rate of interest to be allowed should be at least sufficient to offset the cost to the carrier of money borrowed where the moneys advanced by the company had to be secured from outside loans.

It has seemed to me that this contention should be granted to the extent of providing that the rate of interest to be allowed where the money was advanced by the Director General should be the same rate which the Director General charged the carrier for the money loaned. The contract may be charged accordingly.

Other matters of less moment were discussed. These have been passed upon and the contract as now drafted reflects my final view as to these several matters.

W. G. McAdoo.

General Statement of the Director General Respecting the Standard Form of Contract.

United States Railroad Administration,
Washington, September 5, 1918.

I am announcing to-day the form of contract which the Government is willing to make with the railroad companies covering Federal control of the railroads and the compensation therefor.

The formulation of these contract provisions has been in progress since the approval of the Federal control act on March 21 last. The length of time consumed in this work

has been due to the difficulties and intricacies of the subject, the absence of precedent for a contract of this nature, the great variety of railroad conditions and practices which had to be carefully considered and discussed before finally adopting a uniform plan, and the necessity of giving to the great number and variety of interest affected the fullest opportunity for hearing and discussion upon every aspect of the many-sided problems.

In order that no phase of the public interest might be unrepresented, I arranged at the outset for, and have continuously had, the benefit of the advice and assistance in this matter, of a committee of the Interstate Commerce Commission, consisting of Messrs. Clark, Hall, Anderson, and Moyer.

The railroad companies and the railroad security holders have been represented by committees as well as by counsel. In addition to the various formal hearings and discussions, there have been repeated interviews at which a great many special problems affecting particular railroad companies have been fully represented.

The draft of contract adopted is the outcome of all these hearings, discussions, and considerations, and represents, in my judgment, a form of contract which conforms to law, protects the public interest, and accords to railroad companies and their stockholders and bondholders the just protection which was contemplated by the Government when it took possession and control of the railroads.

Aside from recitals, definitions, and description of property, the draft of contract covers only 12 pages. The principal features are as follows:

The railroad company accepts the contract and the compensation therein provided for in full satisfaction of all claims on account of Federal possession and control.

Provision is made for the numerous features of operation and accounting during Federal control, for the allocation of revenues on traffic in transit at midnight December 31, 1917, for the handling of "overlapping" items of expense, etc.

Provision is made for the maintenance of the property during Federal Control, of course at the expense of the Government, on substantially the same basis as during the three-year test period ending June 30, 1917, and for the return of the property at the end of Federal control in substantially as good repair and substantially as complete in equipment as on January 1, 1918; it is provided in effect that if during the test period the maintenance expenses were not sufficient to put the property in condition for safe operation, the additional maintenance necessary for safe operation may be provided at the expense of the company with the limitation that the cost of maintenance shall not be increased at the expense of the company over the normal standard of maintenance of railroads of like character and business during the test period.

Provision is made for the payment of taxes in accordance with the Federal control act.

Provision is made for the annual compensation (which will be fixed in each case in accordance with the provisions of the Federal control act) to be paid to the company in quarterly installments. This compensation will not be subject to any deductions which would prevent the company from supporting its corporate organization, keeping up its sinking funds, paying taxes and rents, and interest heretofore regularly paid, and interest on loans issued during Federal control. These requirements of the company for corporate expenses and fixed charge being thus provided for, the Government has the right to make deductions from the remaining compensation to satisfy indebtedness which the railroad company may owe to the Government; however, the contractor, declares the power of deduction to be an emergency power, to be used only when no other reasonable means is provided by the company to reimburse the United States, and not to be used so as to interrupt unnecessarily the regular payment of dividends made by the company during the test period.

Provision is made for the orderly presentation and disposition of claims on the part of the railroad company for amounts expended by the Railroad Administration for additions to its property which, in the opinion of the railroad company, are not for its advantage and for which it believes it should not be charged.

Provisions are also made for final accounting at the end of Federal control.

In comparatively a few instances, considering the opportunity for differences of opinion, there appear to remain some objections, on the part of some of the interests which have been heard, but these objections are, in my opinion, without foundation.

One of these objections is that the contract ought to leave open for litigation at the end of Federal control the question whether the railroad has been damaged by diversion of its business during Federal control. This claim is not tenable because the railroads have been taken over for war purposes which necessitate diversion of traffic, hence there can be no escape from the view that Congress intended the compensation which it authorized to cover this element. This demand of certain interests is, in effect, for an opportunity to litigate and is a demand which need not be urged if the railroad company, instead of making the contract offered, should, instead, go

to the Court of Claims to get its compensation. In this event the railroad company would get only a single compensation, covering its entire claim, including any damages for alleged diversion, and would not be allowed to litigate at the end of Federal control the question of diversion of business. The contract ought not, in this respect, to put the railroad company in any better position than it would occupy if it made no contract. This demand is not only unreasonable but the director general has no lawful authority to grant it as I have been advised by the Solicitor General of the United States to whom I submitted the question and who has considered and approved the legal aspect of the contract.

Objection has also been made that the contract ought not to require a railroad company to pay out of its compensation such additional amount as may be necessary to bring a railroad, which at the beginning of Federal control was in unsafe condition, up to a condition of safe operation. This objection really means that the Government ought to accept and continue such a property in an unsafe condition (which would be clearly contrary to the public interest and ultimately contrary to the interest of the owners of the property), or should itself repair at its own cost the fault of the owners and put the property in a better condition than the owners kept it, thus giving the owners not only compensation, but besides, at the end of Federal control the advantage of having, without cost, an improved property, while this advantage would be denied to railroad owners who had properly maintained their property. I have not been able to accede to this view. I have felt that railroad owners had no right to make any such demand, nor do I believe that railroad owners generally do make any such demand. Under the contract, however, this right to bring the property up to a condition of safe operation is not to be exercised so as to interfere with the railroad company's payment of its fixed charges, including interest heretofore regularly paid.

Some objection has also been made that no part of a railroad company's compensation should be used to pay its debts to the Government except such part as might remain after the company's payment of its customary dividends. This objection has no bearing where a company has paid dividends on a provident basis and has retained, as it is recognized all well-regulated companies should retain, a substantial surplus of its income to provide a margin of credit and cover unproductive improvements. In every such case the company can, in accordance with the contract, make other reasonable provision for reimbursing the United States and there need be no interference with its dividends as regularly paid during the test period. The objection only applies where a railroad company has paid improvident dividends.

As to such a case the argument is that the contract should put the company in a far better position than it would occupy if it made no contract and in a far better position than it would occupy if it continued in private control and enjoyed an income equal to the compensation guaranteed by the Government. Without a contract, the right of deduction in such cases would be clear. Under private management, and with a corresponding income, the company would have to pay the penalty of improvident dividends through the loss of its credit and, ultimately, the breaking down of its property. The proposition is baldly that the Government shall protect the company in paying improvident dividends, and then lend it money to cover all its indebtedness arising since Federal control, and render it immune from the consequences of its own improvidence. All of these objections are unreasonable. It is not possible to believe that they express the views of the railroad companies generally, or the owners of railroad securities generally. These points are mentioned, however, because they appear to have been made the subject of very considerable publicity.

Frequently the arguments urged in opposition to certain features of the proposed contract have suggested the idea that under any such contract the railroads would be in a much worse position than if they had remained in private management. It may be well, therefore, to look at the situation which confronted the railroads last December and to consider what would probably be their present status if still in private management.

Last December the expenses of the railroads were increasing with great rapidity. They were hedged about in their efforts to obtain increased rates by the numerous and various restrictions imposed by the States, and also by the limitations imposed by the interstate-commerce act. They were confronted by imparative demands for greatly increased wages and were without machinery to insure an amicable settlement of these demands. They were finding it almost impossible to borrow money on any terms to make the improvements which were indispensable to enable them to perform their public service. The operating results for the first four months of 1918 indicate that if the railroads had been under private control during that period they would have lost in operating income, as compared with the corresponding period of the preceding year, $136,116,533; and as compared with an average of the corresponding period for the three-year test period, $96,064,356. This takes no account of the wage increase subsequently made, which nevertheless was retroactive to

January 1. These adverse conditions, coupled with the extreme difficulty of borrowing money, would probably have resulted in the failure of some of the most important railroad companies in the country to meet their obligations under private management.

Under Federal control the railroads have the opportunity to contract with the Government for a guaranteed income on a just basis, which relieves them of the formidable anxieties which confronted them in December, and which would still be confronting them under private control. They are able to borrow money from the Government on reasonable terms for necessary improvements. These are fundamental things which impress the great body of railroad investors and should make them satisfied with the status as it now exists.

Of course no railroad company is compelled to accept the form of contract the Government offers. The company is free to reject the contract and go into the Court of Claims to obtain such compensation as the Court of Claims will allow and to work out, under statutory and general legal principles, all the details of the relationship which will arise between the Government and the company on account of Federal control. I am convinced, however, that the contract offered by the Government is just and reasonable. The railroad owners have no right to assume more than that and if the Government offers less, they are fully protected by their right to reject the Government's offer and go into the Court of Claims.

W. G. McAdoo.

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